

20th Century® Bookkeeping & Accounting

TWENTY-FIRST EDITION

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Preface

Why study bookkeeping and accounting?

Bookkeeping as general education. The principles and practices of bookkeeping and accounting are related to the daily lives of all of us. Even the simplest business transaction affects the financial records of some business. A person who rides on a bus, gets a check for work he has done, buys a pair of shoes, or performs any other of the numerous common business activities of everyday living starts a chain of bookkeeping and accounting records. The study of bookkeeping will help us understand how business functions in our everyday life and what business contributes to our society.

The principles and practices of bookkeeping and accounting make our personal lives more effective. If we keep records of our finances, we can use our income more wisely. Spending can be planned to include not only the purchase of the necessities of life, but also recreational activities and provision for the future. Personal records, too, are now needed for income tax purposes.

Knowing the place of business in our society and knowing how to manage wisely our own personal business affairs makes for good citizenship. The study of bookkeeping and accounting, therefore, contributes to everyone's general education.

Bookkeeping as vocational education. The study of bookkeeping prepares people for employment in business. The bookkeeper is a valuable citizen. He is an important member of the office workers of the country — the second largest working force in the nation. He is at the hub of the big wheel of business. All business activities revolve around his work. He is in a vital position and his work is essential to the success of business enterprises. Upon the basis of the accurate work of the bookkeeper, many far-reaching decisions are made concerning business activity.

Businessmen and individuals keep more records than formerly. Many laws have been passed relating to keeping records about such things as social security, wages and hours of employment, workmen's compensation, income taxes, sales taxes, and so on. These laws have added to the

volume and the detail of bookkeeping procedures. Many businesses that had not kept books previously must now do so.

Bookkeeping as a field of work. "Bookkeeping" is a term that covers a wide area of work in business. It is the practice of keeping a systematic record of business transactions. In many businesses the task of keeping the books is so large that it is divided among many people.

There are record keepers. Record keepers include posting clerks, entry bookkeepers, payroll clerks, clerks who fill out forms, and bookkeeping machine operators. These workers deal with parts of the total bookkeeping work. We might call them junior bookkeepers. Machines may be used to keep some of the records. They are tools to work with and are no substitute for the knowledge of bookkeeping.

There are bookkeepers. Those who keep the records are often required to understand the effects of a firm's business transactions. They keep the records and make the reports that reflect the condition of the business. They are senior bookkeepers. The material in this textbook gives specific training for work in both bookkeeping and record keeping.

There are accountants. The accountant is a professional person who is trained to *interpret* the meaning of business records, to *audit* accounts and records, and to *advise* businessmen and individuals in accounting matters. Accounting is one of the highest paid professions. A study of bookkeeping in high school will aid each student to discover if he has the aptitude, the interest, and the ability to become an accountant.

Bookkeeping as a help to workers. Bookkeeping is useful to many kinds of workers in business. A *typist* prepares statements and other reports dealing with bookkeeping work. A *secretary* takes dictation or transcribes information dealing with bookkeeping terms, transactions, and records. She may also keep bookkeeping records for her employer. A *salesperson* records cash and charge transactions, and is often required to assist in inventory work. Bookkeeping helps *junior executives* understand the problems of business. The material in this text will help all business workers perform their tasks with greater confidence and efficiency.

Bookkeeping necessary to small business owners. Bookkeeping is essential to the person planning to operate his own service station, beauty parlor, farm, restaurant, or store. Lack of proper records and the understanding of such records is one of the most frequent causes of business failure. This book will help a person who plans to own his own business keep the records necessary to assure success.

Organization of this textbook

Progress brings change. Changes in government regulations, in laws, and in taxes bring about changes that affect business and bookkeeping. New business practices and new business terms replace old ones. Teaching methods bring new, improved, and simpler ways of presenting a subject. Today's students should experience the benefit of these changes and improvements. That is the reason for and the purpose of this 21st Edition of *20th Century Bookkeeping and Accounting*. The general pattern of its eminently popular predecessor has been retained, but the contents of each chapter have been brought up to date.

The place of research in this revised edition. Three important groups of people have played a vital part in the revision of this textbook. The recommendations of many *practicing accountants* have been solicited and considered. Published surveys and research of The American Institute of Certified Public Accountants have been studied. The nation's leading *manufacturers of accounting forms and bookkeeping systems* have been consulted. As a result, the forms used in this revision conform to the latest business practices and standards. Hundreds of *bookkeeping teachers* in both large and small schools have responded to inquiries about the teaching of bookkeeping. Personal interviews have also been held with many bookkeeping teachers.

Spiral development. Psychologists have quite generally agreed that the best way to learn a process is to see the whole picture as quickly as possible. After the whole process is seen, the learner proceeds to study and expand the details and the fine points that make up the picture. A quick overview of the complete bookkeeping cycle in its simplest form is therefore presented in Part 1. Each time the bookkeeping cycle is repeated, it is expanded just as a spiral is expanded. The one book of original entry in Part 1 is expanded in Part 2 to include special journals, and in Part 3 a combination journal with many amount columns is used. The single ledger in Part 1 is expanded in Part 2 to include the use of a general ledger and two subsidiary ledgers. The simple six-column work sheet without adjusting entries in Part 1 is expanded in Part 2 into an eight-column work sheet with adjusting entries.

Step-by-step illustrations and development. Each chapter of the textbook takes up a specific bookkeeping principle and develops it in a manner that makes learning effective. First, a business situation is presented.

Second, a step-by-step analysis is made of the recording required by the situation. Third, an illustration is given showing step-by-step what is done by the bookkeeper.

Drills for understanding. Bookkeeping requires an understanding of the reasons for what is done and skill in doing it. Such understanding and skill are acquired through practice and drill. Special consideration has been given in this edition to meaningful drills for understanding at the end of many chapters. A liberal number of these drill exercises are available for classroom use or for homework assignments.

Chapter organization. Special attention has been given to the organization of each chapter for the purpose of making the teaching and the learning as effective as possible. Each chapter concludes with review and summary material for testing and reinforcing the students' understanding and application of the material covered by the chapter. These end-of-chapter materials include: (1) *Chapter Questions* to review the information presented in the chapter; (2) *Increasing Your Business Vocabulary* to assist students in mastering the new business words embodied in the chapter; (3) *Cases for Discussion* to challenge students to apply the principles they have learned; (4) *Drills for Understanding* to aid in helping to fix learnings; and (5) *Application Problems* to give students ample opportunity to apply and reinforce new and previous learnings.

Projects and practice sets. The learning of any knowledge or skill requires application. Directed practice through carefully planned projects and practice sets at frequent intervals throughout the textbook gives the student practice in performing the bookkeeping tasks commonly found in business. The workbook that accompanies this textbook provides ruled paper for the written exercises and projects. Ordinary bookkeeping paper may be used if the teacher prefers. Bookkeeping practice sets with or without business papers are also available. The sets with business papers give the student an actual contact with commonly used business forms.

Acknowledgments. There have been many people who have contributed to the continual improvement of *20th Century Bookkeeping and Accounting*: the innumerable students and teachers who have used the previous editions, those who have given freely of their professional knowledge, and those who have worked directly on the production of the book itself. To all of these, the authors wish to express their great appreciation and sincere thanks.

The Authors

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NO. 1 October 1, 1957
 RECEIVED FROM H. H. Lee
Twenty 00 DOLLARS
 FOR Realty papers tax desk
 \$ 20.00
 GREENE REALTY AGENCY
 BY J. M. Greene

JOURNAL										Page 3
DATE		NAME OF ACCOUNT		NO.	POST REF.	GENERAL		COMMISSIONS INVEST CREDIT		
DEBIT	CREDIT					DEBIT	CREDIT			
		Oct 1	Office Furniture	A-1	13		3000			
		1	Reame Company	C-1	21	3500				
	3500	2	Office Substutire	C-2	13	3750				
	3750	3	Office Machine	C-3	23		1500			
1500		4	Office Stange	C-3	23		4200			
	4200	5	Office Machine	C-4	14		3600			
	7200	6	Office Machine	C-5	13		3900			
	3900	7	Office Furniture	C-6	22		10000			
	10000	8	Samels Company	A-3	13		1700			
1700		9	Office Substutire	A-4	1					
60000		10	Commisars Income	C-1	53	13000			60000	
	12000	11	Govt Expense	C-2	53					
			Govt Expense Income							

Cash

ACCOUNT NO. 11

DATE	ITEMS	POST. REC.	DEBIT	DATE	ITEMS	POST. REC.	CREDIT
1957 Oct	1 Balance		1 37100	1957 Oct. 31		2	72393
31	1957 1005.67		2 144644	31	Balance		1 107767
			181160				1 107767
1957 Nov	1 Balance		✓ 107767				

[illegible]

Starting a bookkeeping system






CHAPTER 1

Importance of bookkeeping records. The key to good business management is good bookkeeping records. Bookkeeping records can show whether a business operates at a profit or at a loss. Studies show that the success or the failure of a business may often be traced to the kind of records that are kept.

The work of the bookkeeper. One who records all the business affairs of a business in an orderly manner is called a *bookkeeper*. A bookkeeper must (a) be accurate, (b) understand what he is to do and how he should do it, and (c) be systematic, neat, and rapid in his work. A person who knows bookkeeping can manage his own business affairs better than one who does not, and he can also secure well-paying positions in business.

Starting a bookkeeping system. Before a person starts a bookkeeping system for himself, he should know how much he is worth. What he is worth is the difference between what he owns and what he owes.

For example, Charles Jones is starting a personal bookkeeping system. As the first step he finds:

<i>What he owns:</i>		<i>What he owes:</i>	
	→ Cash on hand..... \$ 250.00		To Hackett Grocery... \$ 58.00
	→ Government bonds 1,000.00		To Johnson Market.... 37.00
	→ Automobile..... 1,200.00		To Webster Garage.... 144.00
	→ Furniture..... 3,500.00		Total owed..... \$239.00
	→ House and lot..... 15,000.00		
	Total owned..... \$20,950.00		

Charles Jones can now find what he is worth by subtracting what he owes from what he owns.

What he owns.....	\$20,950.00
What he owes.....	239.00
What he is worth.....	\$20,711.00

The balance sheet. In bookkeeping, a business form showing what is owned, what is owed, and what the proprietor is worth is called a *balance sheet*. The balance sheet of Charles Jones prepared from the information on page 1 is as follows:

Charles Jones Balance Sheet December 31, 1957					
Assets			Liabilities		
Cash	250	00	Hackett Grocery	55	00
Government Bonds	1000	00	Johnson Market	37	00
Automobile	1200	00	Webster Garage	144	00
Furniture	350	00	Total Liabilities	239	00
House and Lot	1500	00			
			Proprietorship		
			Charles Jones, Capital	207	11 00
Total Assets	2095	00	Total Liabilities and Prop.	209	50 00

Beginning balance sheet of an individual

Heading of the balance sheet. The heading of Charles Jones's balance sheet is written on three lines. Each of the three lines gives important information about the form as follows:

Line 1. Who? — the name of the person

Line 2. What? — the name of the business form

Line 3. When? — the date of the balance sheet

Charles Jones
Balance Sheet
December 31, 1957

Body of a balance sheet. The body of a balance sheet has three sections: (1) Assets, (2) Liabilities, and (3) Proprietorship. The Assets section is placed on the left-hand side of the balance sheet; the Liabilities section and the Proprietorship section are placed on the right-hand side.

1. Assets. Anything of value that is owned is called an *asset*. Charles Jones's assets are cash on hand, government bonds, automobile, furniture, and house and lot. Assets are listed on the left-hand side of the balance sheet. Each asset is given a brief title that describes it. For example, cash on hand is listed as *Cash*.

2. Liabilities. An amount owed is called a *liability*. The one to whom an amount is owed is known as a *creditor*. Charles Jones has three liabilities. Liabilities are listed on the right-hand side of the balance sheet. The title of each liability is the name of the creditor. For example, "Owed to Hackett Grocery" is listed simply as *Hackett Grocery*.

3. Proprietorship. The amount that would remain if all of the liabilities were paid is known as *proprietorship*. The amount of the proprietorship is obtained by subtracting the total liabilities from the total assets. The proprietorship is listed on the right-hand side of the balance sheet. The word *Capital* is written after the name of the owner. Charles Jones lists his proprietorship by writing *Charles Jones, Capital*.

Beginning a bookkeeping system for a social organization. On August 1, the athletic director and the student council of the local high school decide to start a new bookkeeping system for the high school athletic department. Before the books can be started, the bookkeeper needs to know what the department owns, what it owes, and what it is worth. This information in balance sheet form is shown below.

High School Athletic Department Balance Sheet August 1, 1957			
Assets		Liabilities	
Cash	1 27 00	Athletic Supply Co	370 00
Basketball Equipment	850 00	Coe Printing Co	35 00
Football Equipment	3164 00	Quaker Drug Co., Inc.	86 00
Therapy Equipment	306 00	Total Liabilities	491 00
Track Equipment	483 00		
		Proprietorship	
		H.S. Athletic Dept. Capital	4439 00
Total Assets	4930 00	Total Liabilities and Prop.	4930 00

Beginning balance sheet of a school organization

Analyzing the balance sheet. This balance sheet is similar to the balance sheet of an individual illustrated on page 2. Note that:

1. The heading has three lines showing the name, High School Athletic Department, the name of the form, and the date.
2. The assets are listed in the Assets section on the left-hand side of the balance sheet.
3. The liabilities are listed in the Liabilities section on the right-hand side of the balance sheet.
4. The amount that the athletic department is worth is shown in the Proprietorship section on the right-hand side of the balance sheet. It is given the title *High School Athletic Department, Capital*.
5. The total of the liabilities is added to the proprietorship. The total of the liabilities plus the proprietorship equals the total of the assets.

Beginning a bookkeeping system for a business. J. M. Greene is the owner of a real estate business known as the Greene Realty Agency. He has decided to start a new bookkeeping system that will give him better information about the operations of his business. Before he can start his new system, he needs to know:

1. What he owns — his assets.
2. What he owes — his liabilities.
3. What he is worth — his proprietorship.

The balance sheet of the Greene Realty Agency. When Mr. Greene has the necessary information, he prepares a balance sheet as the first step in starting the new bookkeeping system. The balance sheet is shown below.

Greene Realty Agency Balance Sheet October 1, 1957										Step 1
Step 2	Assets				Liabilities				Step 3	
	Cash	371.00			Adams Company		91.00			
	Automobile	3170.00			Daniels Company		300.00			
	Office Furniture	745.60			Star Garage		1250.00			
	Office Machines	2544.00			Total Liabilities		1641.00		Step 4	
					Proprietorship				Step 5	
Step 8					J. M. Greene, Capital		2900.00		Step 6	
Step 9	Total Assets	4541.00			Total Liabilities & Prop.		4541.00		Step 7	

When amounts are written in ruled columns, the dollar signs and the decimal points are not written. The red ruling in the amount column separates dollars and cents and serves as the decimal point. When an amount is in even dollars, two zeros are written in the cents column.

Step 3. Write the word *Liabilities* in the center of the wide column on the right-hand side of the balance sheet. Then, list the name of each creditor and the amount owed to him.

Step 4. Draw a single ruled line under the last liability amount, add the column, and write the total on the next line. Write the words *Total Liabilities* on the same line as the total.

Step 5. Skip one line after *Total Liabilities* and write the word *Proprietorship* in the center of the wide column. The blank line separates the Proprietorship section from the Liabilities section.

Step 6. Write the *name of the proprietor* and the word *Capital* on the next line under the heading *Proprietorship*. Then on a separate sheet of paper, find the amount of the proprietorship by subtracting the total liabilities from the total assets. Write the amount of the proprietorship in the amount column after the word *Capital*.

Step 7. Draw a single ruled line across the amount column under the amount of the proprietorship. Add the total liabilities and the amount of the proprietorship and write the total immediately below the single ruled line. Write the words *Total Liabilities and Proprietorship* on the same line as the total. If necessary, the words may be abbreviated. For example: *Total Liabilities & Prop.*

Step 8. Draw a single ruled line across the amount column on the left-hand side of the balance sheet on the same line as the last single ruled line on the right-hand side. This is done in order to place the final totals of the balance sheet on the same line on both sides.

Step 9. Add the assets amount column on the left-hand side of the balance sheet and write the total immediately under the single ruled line. Write the words *Total Assets* on the same line as the amount of the total.

Step 10. Compare the final total of the left-hand side of the balance sheet with the final total of the right-hand side. The two totals should be the same. If the two final totals are the same, draw double ruled lines across the amount columns immediately under the totals on both sides. If the final totals are not the same, find and correct the error in addition or subtraction before drawing double ruled lines.

Double ruled lines are drawn to show that all work has been completed and that the balance sheet is believed to be accurate.

The fundamental bookkeeping equation. On any balance sheet, the total amount of the assets is equal to the total amount of the liabilities plus the amount of the proprietorship. This important principle of bookkeeping may be stated in the form of the following simple equation:

$$\text{ASSETS} = \text{LIABILITIES} + \text{PROPRIETORSHIP}$$

This equation is true of all balance sheets. It is therefore known as the *fundamental bookkeeping equation*.



CHAPTER QUESTIONS

1. What is the first step in starting a new bookkeeping system?
2. What is written on each of the three lines of the heading at the top of a balance sheet?
3. What word did Charles Jones write immediately after his name in the Proprietorship section of his balance sheet in order to show that he is worth \$20,711.00?
4. What is the heading of the section of the balance sheet that appears on the left-hand side of each of the three balance sheets in this chapter?
5. What are the headings of the two sections of the balance sheet that are on the right-hand side of each of the balance sheets in this chapter?
6. Why are double lines drawn on the balance sheet?
7. State the fundamental bookkeeping equation that summarizes the contents of any balance sheet.

INCREASING YOUR BUSINESS VOCABULARY

What is the meaning of each of the following:

- | | | |
|-------------------|---------------|--------------------|
| (a) bookkeeper | (c) asset | (e) creditor |
| (b) balance sheet | (d) liability | (f) proprietorship |

CASES FOR DISCUSSION

1. The Future Business Leaders of America chapter of the local high school has a bank balance of \$83.64 and no other assets. The association has no unpaid bills. What is the amount of proprietorship?
2. The Caldwell Shoe Company has property worth \$45,000. The debts of the Caldwell Shoe Company amount to \$25,000. What is the amount of proprietorship?

DRILL FOR UNDERSTANDING

Drill 1-A. This drill is planned to give you skill in classifying items as assets, liabilities, and proprietorship.

Instructions: 1. If you do not have a workbook, copy on a sheet of paper the list of items shown at the right. Then rule a one-inch Answers column at the right of the list. Write the heading *Answers* at the top of this column.

2. Classify each item on your list as an asset, a liability, or proprietorship by writing in the Answers column a capital *A* for asset, a capital *L* for liability, or a capital *P* for proprietorship. The first item, cash on hand, is given as an example.

3. Now cover your answers and see how rapidly you can do this orally without looking at your answers. Repeat this drill orally several times for increased speed and accuracy.

<i>Items to be Classified</i>	<i>Answers</i>
1. Cash on hand	A
2. Owed to grocery	
3. Automobile	
4. Unpaid meat bill	
5. Furniture	
6. Owed to dairy	
7. House and lot	
8. Amount person is worth	
9. Government bonds	
10. Any item owned	
11. Any amount owed	

APPLICATION PROBLEMS

Problem 1-1. Balance sheet for an individual

George Lane plans to set up a personal bookkeeping system. He has prepared the following lists of things owned and amounts owed:

Things owned:

Cash on hand.....	\$ 380.00
Government bonds.....	2,000.00
Automobile valued at.....	1,600.00
Furniture valued at.....	4,200.00
House and lot valued at....	15,500.00
Total value of items owned.	<u>\$23,680.00</u>

Amounts owed:

Owed to Dr. S. H. Ambrose	\$ 250.00
Owed to Barty's Store.....	147.00
Owed to Slowey's Market..	<u>86.00</u>
Total amount owed.....	\$ 483.00

Instructions: Prepare a balance sheet for George Lane dated June 30 of the current year. Follow the steps for preparing a balance sheet given on pages 4 and 5. Use the illustration of the balance sheet on page 2 as your model. Strive for accuracy and neatness.

Self-checking: Check the accuracy and the completeness of your work by asking yourself the following questions:

- (a) Did you center each of the three sectional headings in the body of your balance sheet?
- (b) On the right-hand side of your balance sheet did you leave a blank line between the Liabilities section and the Proprietorship section?
- (c) Is the amount of the total assets at the bottom of the left-hand side of your balance sheet on the same line as the amount of the total liabilities and proprietorship at the bottom of the right-hand side?
- (d) Are the two totals at the bottom of your balance sheet the same amount?
- (e) Did you draw single and double lines across the amount columns only?

Problem 1-2. Balance sheet for a school organization

The High School Athletic Department has the following assets and liabilities:

Cash and other property:

Cash on hand.....	\$ 216.00
Football equipment.....	1,965.00
Basketball equipment.....	750.00
Baseball equipment.....	687.00
Track equipment.....	243.00
Total cash and other property	<u>\$3,861.00</u>

Unpaid bills:

Athletic Supply Company...	\$ 937.00
Collins Printing Company...	46.00
Martin Pharmacy.....	52.00
Total unpaid bills.....	<u>\$1,035.00</u>

Instructions: Prepare a balance sheet for the High School Athletic Department dated August 31 of the current year. Use as your model the illustration of a balance sheet on page 3.

Self-checking: Check your work by asking yourself the questions that are listed under Problem 1-1.

Problem 1-3. Balance sheet for a small business

The following are the assets and the liabilities of the Shorewood Laundry, owned and operated by E. S. Thompson.

ASSETS

Cash.....	\$ 486.25
Office Equipment.....	363.80
Delivery Equipment.....	1,792.00
Machinery.....	<u>5,630.00</u>

LIABILITIES

Allied Machinery Co.....	\$711.50
National Equipment Co.....	<u>252.75</u>

Instructions: Prepare a balance sheet for the Shorewood Laundry dated September 30 of the current year. Use as your model the balance sheet on page 4.

Self-checking: Check your work by asking yourself the questions that are listed under Problem 1-1.

Recording the opening entry in a journal

CHAPTER 2

Recording the beginning balance sheet in a book. The beginning balance sheet is prepared on a sheet of paper. It should be made a part of the permanent record and should therefore be recorded in the books of the business. A book in which any of the records of a business are first written is called a *journal*. An entry in a journal to record a beginning balance sheet is known as an *opening entry*.

The journal. There are many kinds of journals. A journal may have one or more amount columns. The Greene Realty Agency uses two amount columns in recording its opening entry.

JOURNAL					PAGE
DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT	
1					1
2					2

A journal with two amount columns

Making the opening entry. The opening entry in the journal is made from the information on the balance sheet. The balance sheet of the Greene Realty Agency from which an opening entry is made is illustrated below.

Greene Realty Agency Balance Sheet October 1, 1957			
Assets		Liabilities	
Cash	371 00	Adams Company	91 00
Automobile	3170 00	Daniel's Company	300 00
Office Furniture	745 60	Star Garage	125 00
Office Machines	254 40	Total Liabilities	1641 00
		Proprietorship	
		J. M. Greene, Capital	2900 00
Total Assets	4541 00	Total Liabilities & Prop.	4541 00

Beginning balance sheet of Greene Realty Agency

The following are the steps in making the opening entry in the journal:

Step 1. Write the date of the opening entry — year, month, and day — under the heading *Date* as shown below.

JOURNAL						PAGE /
	DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT	
1	1931 Oct. 1					1
2						2
3						3

The date of an entry consists of three parts: (1) the year, (2) the month, and (3) the day of the month. The year is written in small figures at the top of the first column. The month is written immediately below the year on the first line in the first column. The day of the month is written on the first line in the second column. The day is written once for each entry, but only once, regardless of the number of items in the entry.

Step 2. Write the *names* of the assets in the Name of Account column of the journal and the *amounts* of the assets in the Debit column.

In recording the balance sheet in the journal, the amounts on the left-hand side of the balance sheet are recorded in the left-hand amount column, the Debit column, of the journal. The amounts on the right-hand side of the balance sheet are recorded in the right-hand amount column, the Credit column, of the journal.

The journal, after the left-hand side of the balance sheet has been recorded, appears as follows:

JOURNAL						PAGE /
	DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT	
1	1931 Oct. 1	Cash		37100		1
2		Automobile		317000		2
3		Office Furniture		74560		3
4		Office Machines		25440		4
5						5
6						6
7						7

The names of the assets, which appear on the left-hand side of the balance sheet, are written at the extreme left edge of the Name of Account column of the journal. The amounts of these assets are written in the Debit column of the journal.

Step 3. Write the *names* of the liabilities and the *name* of the proprietor in the Name of Account column of the journal. Write the word *Capital* after the proprietor's name. Record the *amounts* of these items in the Credit column of the journal.

After the credit items have been recorded, the journal appears as follows:

JOURNAL						PAGE 1	
DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT			
1957 Oct. 1	Cash		371 00				1
2	Automobile		3170 00				2
3	Office Furniture		745 60				3
4	Office Machines		254 40				4
5	Adams Company			91 00			5
6	Daniels Company			300 00			6
7	Star Garage			1250 00			7
8	J. M. Greene, Capital			2900 00			8
9							9
10							10
11							11
12							12
13							13
14							14
15							15

The names of the liabilities and the name of the proprietor are on the right-hand side of the balance sheet. In the journal these names are written in the Name of Account column about one-half inch to the right of the vertical red line. In this way the credit items are distinguished from the debit items. The amounts of the liabilities and the amount of the proprietorship are written in the right-hand or Credit column of the journal.

Step 4. Write a brief explanation of the complete journal entry in the Name of Account column immediately below the last credit item. The explanation is indented about one-half inch farther than the credit items to distinguish between the explanation and the credit items. If more than one line is needed for the explanation, the second line of the explanation begins with the same indentation as the first line.

The purpose of the explanation is to make the journal entry clear whenever later reference is made to it. The explanation should therefore add any desirable information that is not indicated in the debit and credit lines of the journal entry. The explanation should be brief.

The complete opening entry in the journal then appears as shown on the following page.

JOURNAL					PAGE /
	DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT
1	1931 Oct. 1	Cash		371 00	
2		Automobile		3170 00	
3		Office Furniture		745 60	
4		Office Machines		254 40	
5		Adams Company			91 00
6		Daniels Company			300 00
7		Star Garage			1250 00
8		J. M. Greene, Capital			2900 00
9		To record October 1 balance sheet.			
10					
11					
12					
13					
14					
15					
16					

An opening entry in a journal

Analyzing the opening entry. Every journal entry has two parts: the debit part and the credit part. In a journal with two amount columns, the left-hand amount column is called the *Debit column*; the right-hand amount column is called the *Credit column*. Assets that have amounts recorded in the Debit column are said to be *debited*. Liabilities and proprietorship that have amounts recorded in the Credit column are said to be *credited*.

The journal entry to record the balance sheet of the Greene Realty Agency shows that all of the asset accounts were debited. These debits are the same as the items on the left-hand side of the balance sheet. The entry shows that all liabilities and the proprietorship were credited. These credits are the same as the items on the right-hand side of the balance sheet.

In every journal entry, the total of the debit amounts must equal the total of the credit amounts. The total of the debits in the journal entry, \$4,541.00, is the same as the total of the assets on the balance sheet. The total of the credits, \$4,541.00, is the same as the total of the liabilities and proprietorship on the balance sheet. Since the totals are the same, the journal entry is considered correct.

Post. Ref. column. The heading of this column is an abbreviation of "Posting Reference." The use of this narrow column will be explained when posting is explained in Chapter 3.

CHAPTER QUESTIONS

1. What is the relationship between the balance sheet and the opening entry?
2. Why should the information on the beginning balance sheet be recorded in a journal?
3. What is the heading of the left-hand amount column of the two-column journal on page 12?
4. What is the heading of the right-hand amount column of the two-column journal on page 12?
5. Where is the date of the opening entry written in the journal?
6. What kind of balance sheet items are recorded in the Debit column in the journal on page 12?
7. Where are the names of the debit items written in the journal on page 12?
8. What two kinds of balance sheet items are recorded in the Credit column of the journal on page 12?
9. Where are the names of the credit items written in the journal on page 12?
10. What is the purpose of the written explanation?
11. How far should the first word of the first line of the explanation be indented?
12. If there are two lines of explanation, how far should the first word of the second line of the explanation be indented?

INCREASING YOUR BUSINESS VOCABULARY

What is the meaning of each of the following:

- | | |
|-------------------|-------------------|
| (a) journal | (c) debit column |
| (b) opening entry | (d) credit column |

CASES FOR DISCUSSION

1. Paul Baker is the proprietor of a small business in your neighborhood. He has decided that his record keeping is incomplete. He desires to install a complete bookkeeping system.
 - (a) What types of information about his business must he list as the first step in the preparation for opening a new set of books?
 - (b) What bookkeeping form should he prepare from this information?
 - (c) What will be his second step in starting a new bookkeeping system?
2. Ralph Brown desires to start a new bookkeeping system for the business that he operates. His assets consist of cash and office furniture. His only liability is to the Hickey Furniture Company.
 - (a) What two items will be listed as debits in the opening entry?
 - (b) What two items will be listed as credits in the opening entry?

DRILL FOR UNDERSTANDING

Drill 2-A. This drill is planned to give you skill in classifying balance sheet items as either debits or credits when recorded in a journal.

Instructions: 1. If you do not have a work-book, copy on a sheet of paper the balance sheet items shown at the right. Then rule two narrow columns at the right of your list. Write *Debit* above your left-hand column and *Credit* above your right-hand column.

Balance Sheet Items

1. Automobile
2. Cash
3. Daniels Co. (creditor)
4. J. M. Greene, Capital
5. Office Furniture
6. Office Machines
7. Star Garage (creditor)

2. If the amount of the balance sheet item will be debited in the journal entry, make a check mark in the Debit column; if it will be credited, make a check mark in the Credit column. The first item, Automobile, is given below as an example.

Balance Sheet Items	Debit	Credit
1. <i>Automobile</i>	✓	

3. Now cover your answers and see how rapidly you can do this orally without looking at your written answers. Repeat this drill orally several times for increased speed and accuracy.

APPLICATION PROBLEMS

Problem 2-1. Opening entry for an individual

Instructions: Prepare an opening entry in a journal from the following balance sheet. Use May 1 of the current year as the date of the entry.

STEPHEN CROCKER
Balance Sheet
May 1, 19--

Assets		Liabilities	
Cash.....	675 00	Marshall's.....	45 00
Government Bonds.....	500 00	Second National Bank.....	1,200 00
Automobile.....	2,400 00	Total Liabilities.....	1,245 00
Furniture.....	4,250 00		
House and Lot.....	17,500 00	Proprietorship	
		Stephen Crocker, Capital.....	24,080 00
Total Assets.....	25,325 00	Total Liabilities and Prop....	25,325 00

Self-checking: Compare your journal entry with the illustration on page 12, and check the accuracy of form by asking yourself the following questions:

(a) Did you write the date at the top of the Date column of the journal, showing the year, the month, and the day?

(b) Does the first letter of each debit item in the Name of Account column touch the vertical red line?

(c) Is each credit item in the Name of Account column indented the same so that the credits do not zigzag back and forth?

(d) Did you write the explanation so that the first word of the explanation is indented about twice as much as the credit items?

Problem 2-2. Opening entry for a beauty shop

Instructions: Prepare an opening entry from the following balance sheet. Use August 1 of the current year as the date of this entry.

UPTOWN BEAUTY SHOP
Balance Sheet
August 1, 19--

Assets		Liabilities	
Cash.....	541 20	Beauty Supply Co.....	246 76
Supplies.....	103 00	Gibson Equipment Company.....	528 25
Furniture.....	1,500 00	Total Liabilities.....	775 01
Equipment.....	2,780 00		
		Proprietorship	
		Sandra Weston, Capital.....	4,149 19
Total Assets.....	4,924 20	Total Liabilities and Prop....	4,924 20

Self-checking: Check the accuracy of your journal entry by asking yourself the questions given at the end of Problem 2-1.

Problem 2-3. Balance sheet and opening entry for a parking lot

The Eastwood Parking Lot is owned and operated by R. D. Miller. He desires to install a new bookkeeping system. His assets and liabilities are:

<u>Assets</u>		<u>Liabilities</u>	
Cash.....	\$ 172.00	Doyan Lumber Company... \$	175.00
Office Equipment.....	350.00	Webster Equipment Co....	64.50
Building.....	1,000.00	Total Liabilities.....	\$ 239.50
Land.....	9,000.00		
Total Assets.....	\$10,522.00		

Instructions: 1. Prepare a balance sheet for the Eastwood Parking Lot dated September 1 of the current year.

2. From this balance sheet record an opening entry in a journal, using September 1 of the current year as the date.

Self-checking: Check the accuracy of your journal entry by asking yourself the questions given at the end of Problem 2-1.

Problem 2-3 will be continued in the next chapter. If it is collected by your teacher at this time, it will be returned to you before it is needed in Problem 3-1.

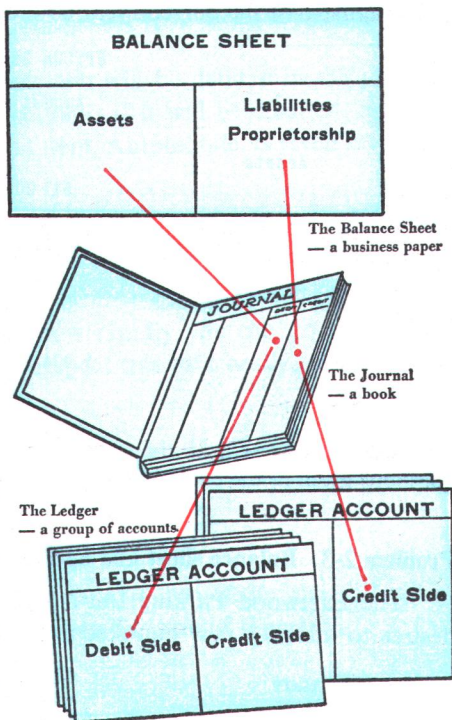
Posting the opening entry

Relationship of the balance sheet, the opening entry, and the ledger accounts. The diagram at the right shows:

1. The balance sheet is a sheet of paper that lists the assets, the liabilities, and the proprietorship of the business.

2. In starting a new book-keeping system, the balance sheet is recorded in a journal. The assets on the balance sheet are recorded in this journal as debits, and the liabilities and the proprietorship are recorded as credits.

3. The items recorded in the opening entry in the journal are transferred to a ledger. A ledger is made up of accounts, each of which is on a separate page. It is the purpose of this chapter to explain the use of accounts and the ledger.



Need for accounts. The opening entry in the journal provides a complete record of the assets, the liabilities, and the proprietorship at the time the books are opened. As business is transacted, there will be changes in these assets, liabilities, and proprietorship. Entries will have to be made in the journal to record these changes.

The entries in the journal do not bring together in one place all the information about one item, such as cash or office furniture. For this reason, the items in journal entries are sorted into forms known as accounts. An *account* is a device for grouping and summarizing the changes caused by transactions. Transferring journal entries to the proper accounts is known as *posting*.

A group of accounts is known as a *ledger*. A ledger is often a bound book or a loose-leaf book. It may also be a group of ledger sheets or cards kept in a tray or a filing cabinet.

Form of the account. Accounts are ruled in various ways, but a common form is that shown below. This form of account is called the standard form.

(Account Title)						ACCOUNT NO.		
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT	
	(Debit Side)				(Credit Side)			

Standard form of account

The account is divided into two halves, each with the same ruling. The left half of an account is known as the *debit side* and is for debit entries. The right half of an account is known as the *credit side* and is for credit entries. The amount column on the debit side is headed *Debit*; the amount column on the credit side is headed *Credit*. The headings of the other columns are the same on both sides of the account.

Posting. In posting the opening entry recorded in the preceding chapter, use the method described in the following paragraphs.

Step 1. Open the journal to the page on which the opening entry is recorded. The entry below is the same as that illustrated on page 12.

JOURNAL						PAGE 1		
DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT				
1957 1 Oct.	Cash		371 00					1
2	Automobile		3170 00					2
3	Office Furniture		745 60					3
4	Office Machines		2544 0					4
5	Adams Company			91 00				5
6	Daniels Company			300 00				6
7	Star Garage			1250 00				7
8	J. M. Greene, Capital			2900 00				8
9	To record October 1 balance sheet.							9
10								10
11								11
12								12
13								13

Step 2. Open the ledger to its first page. Indicate the account number by writing *11* in the upper right-hand corner of the page.

The method used in numbering accounts is explained on page 51.

ACCOUNT NO. <i>11</i>							
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT

Step 3. Write the name of the first debit item, which is *Cash*, on the first line as follows:

<i>Cash</i> ACCOUNT NO. <i>11</i>							
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT

The name given to an account is known as the *account title*. It indicates the nature of the items recorded in the account. *Cash*, the title of the first account, is centered on the line at the top of the account. Writing the title of an account and the account number for the first time in the ledger is known as *opening the account*. In Step 3, the cash account has been opened.

Step 4. Transfer the amount of the cash item in the journal, \$371.00, to the *left* or *debit* side of the cash account. Write the amount of the debit item in the amount column on the debit side of the cash account as shown below:

<i>Cash</i> ACCOUNT NO. <i>11</i>							
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
			<i>371.00</i>				

The amount is recorded in the Debit column because the journal entry shows this amount as a debit.

Step 5. Write the date of the opening entry, as found in the journal, in the Date column on the debit side of the cash account as shown below:

Cash				ACCOUNT NO. 11			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1			371.00				

The date of the entry consists of the year, the month, and the day. Write the date as follows:

- Write the year at the top of the Date column. The year is written only once on each side of each account until the year changes or the account is closed or balanced. The year is not written on the side of the account that has no entries.
- Write the month in the first column under the heading *Date* on the same line as the amount. If the name of the month is long, such as October, it may be abbreviated. The name of the month is written only once on each side of the account that is used during the month. The month is not written on the side of the account that has no entries.
- Write the day of the month in the second column under the heading *Date*.

Step 6. Write in the Items column of the account any special information that may be of value to anyone who later examines this account.

Cash				ACCOUNT NO. 11			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance		371.00				

Bookkeepers distinguish between the beginning amounts in an account and the amounts recorded later as a result of business transactions. The beginning balance in the cash account is, therefore, labeled with a single word *Balance* in the Items column.

Cash				ACCOUNT NO. 11			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct.	1 Balance	1	37100				

Step 8. Return to the journal and write in the Post. Ref. column of the journal the account number of the account to which the item was transferred. The account number, 11, is written in the Post. Ref. column of the journal on the same line as the cash item. This number in the Post. Ref. column of the journal shows that the posting of this line has been completed. For this reason it is always written as the last step in posting. The journal with the account number, 11, written in the Post. Ref. column is shown below.

JOURNAL				PAGE 1
DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT
1957 Oct. 1	Cash	11	371 00	
2	Automobile		317 00	
3	Office Furniture		745 60	
4	Office Machines		254 40	
5	Adams Company.			91 00
6	Daniels Company			300 00
7	Star Garage			1250 00
8	J. M. Greene, Capital			2900 00
9	To record October 1 balance sheet.			

Posting the remaining debits of the opening entry. The same procedure is followed in posting the three other debit items in the opening entry. Each account is placed on a separate page. After these items have been posted, the accounts appear as follows:

Cash								ACCOUNT NO. 11	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	371.00						

Automobile								ACCOUNT NO. 12	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	3170.00						

Office Furniture								ACCOUNT NO. 13	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	745.60						

Office Machines								ACCOUNT NO. 14	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	2544.00						

The journal after posting the four debit items is shown below. It is the same as the journal on page 17 except that the completion of posting of the additional debits in the journal has been indicated by placing the account numbers in the posting reference column.

JOURNAL					PAGE 1
DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT	
1957 Oct 1	Cash	11	371 00		
2	Automobile	12	3170 00		
3	Office Furniture	13	745 60		
4	Office Machines	14	2544 00		
5	Adams Company.			91 00	
6	Daniels Company			300 00	
7	Star Garage			1250 00	
8	J. M. Greene, Capital			2900 00	
	To record October balance sheet.				

Posting the credits of the opening entry. The procedure for posting the credits is the same as that for posting the debits except that the credits are posted to the *right* or *credit* side of the accounts. After the credits are posted, the liability and proprietorship accounts appear as follows:

Adams Company								ACCOUNT NO. 21	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
				1957					
				Oct.	Balance	1	9100		

Daniels Company								ACCOUNT NO. 22	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
				1957					
				Oct.	Balance	1	30000		

Star Garage								ACCOUNT NO. 23	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
				1957					
				Oct.	Balance	1	125000		

J. M. Greene, Capital								ACCOUNT NO. 31	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
				1957					
				Oct.	Balance	1	290000		

After the credits have been posted, the Post. Ref. column in the journal appears as follows:

JOURNAL								PAGE 1	
	DATE	NAME OF ACCOUNT	POST. REF.	DEBIT	CREDIT				
1	1957 Oct.	Cash	11	37100				1	
2		Automobile	12	317000				2	
3		Office Furniture	13	74560				3	
4		Office Machines	14	25440				4	
5		Adams Company	21		9100			5	
6		Daniels Company	22		30000			6	
7		Star Garage	23		125000			7	
8		J. M. Greene, Capital	31		290000			8	
9		To record October balance sheet.						9	
10								10	

The numbers in the Post. Ref. column for all items in the opening entry show that the posting of the opening entry has been completed.

The figures in the posting reference columns of the journal and of the ledger not only indicate that the posting has been completed, but also are useful for cross reference. Anyone looking at the opening entry in the journal can find the number of the account in the ledger to which each item was posted. Similarly, anyone looking at any account in the ledger can find the page number of the journal from which the posting was made. This information is useful if the accuracy of the posting is being checked or if information about the complete transaction is desired.

Account balance. The difference between the two sides of an account is known as the *account balance*. If an account contains only one entry, this single amount is the account balance. If a balance is on the left-hand side of the account, it is called a *debit balance*; if it is on the right-hand side of the account, it is called a *credit balance*. Note on page 21 that the balance of each asset account is a *debit balance*. Note on page 22 that the balance of each liability account is a *credit balance* and that the balance of the proprietor's capital account is also a *credit balance*. These fundamentals may be remembered easily if the illustrations at the right are studied carefully.

ANY ASSET ACCOUNT	
<i>Debit Balance</i>	
ANY LIABILITY ACCOUNT	
	<i>Credit Balance</i>
ANY PROPRIETOR'S CAPITAL ACCOUNT	
	<i>Credit Balance</i>

CHAPTER QUESTIONS

1. What are the printed headings on the *debit* side of the standard form of ledger account?
2. How do the headings on the *credit* side of the standard form of ledger account differ from the headings on the debit side?
3. What are the steps followed in posting the first debit item of the opening entry?
4. Why is the word *Balance* written in the Items column of the ledger account in posting the opening entry?
5. How does posting a credit item differ from posting a debit item?
6. Why is it advisable to indicate posting reference pages in the ledger?
7. What are the two reasons for recording the account number in the posting reference column of the journal?
8. After an opening entry has been posted:
 - (a) Does each asset account have a debit balance or a credit balance?
 - (b) Does each liability account have a debit balance or a credit balance?
 - (c) Does each proprietorship account have a debit or a credit balance?

INCREASING YOUR BUSINESS VOCABULARY

What is the meaning of each of the following:

- | | | |
|-------------------|-------------------------|---------------------|
| (a) account | (e) debit side | (h) account balance |
| (b) posting | (f) credit side | (i) debit balance |
| (c) ledger | (g) opening the account | (j) credit balance |
| (d) account title | | |

CASES FOR DISCUSSION

1. The bookkeeper for the Clark Real Estate Agency, in preparing the opening entry for the agency, finds the following items on the beginning balance sheet: Cash, Automobile, Office Furniture, Culver Company (a creditor), and Robert C. Clark, Capital. (a) Which of the items on the beginning balance sheet should be recorded in the opening entry as debits? (b) Which of the items should be recorded as credits?
2. Cooper Real Estate Agency uses a loose-leaf form of ledger book. Rogers Real Estate uses a permanently bound ledger book. What are the advantages of each kind of ledger?
3. Henry Collins is interrupted by a telephone call while in the midst of posting his opening entry. If he has been following correct bookkeeping procedure in his posting, how can he tell quickly where he left off in the journal at the time that his work was interrupted?

DRILLS FOR UNDERSTANDING

Drill 3-A. This drill will give you additional skill in classifying accounts quickly as assets, liabilities, and proprietorship. You need this skill in journalizing and in posting.

Instructions: 1. If you do not have a workbook, on a sheet of paper copy the ledger account titles that are given at the right. Rule a one-inch column at the right of the list. Write the heading *Answers* at the top of this column.

- | |
|--------------------------------|
| (1) Cash |
| (2) Adams Company (creditor) |
| (3) Automobile |
| (4) Daniels Company (creditor) |
| (5) J. M. Greene, Capital |
| (6) Office Furniture |
| (7) Office Machines |
| (8) Star Garage (creditor) |

Instructions: 2. Classify each account on your list as an asset, a liability, or a proprietorship account by writing in the Answers column a capital *A* for Assets, a capital *L* for Liabilities, or a capital *P* for Proprietorship. The first item is given as an example.

Account Titles	Answers
(1) Cash.....	A

3. Now cover your answers and see how rapidly you can do this orally without looking at your answers. Repeat this drill orally several times for increased speed and accuracy.

Drill 3-B. This drill will give you additional skill in remembering that:

Asset account balances are always debit balances.

Liability account balances are always credit balances.

Proprietorship account balances are always credit balances.

Instructions: An outline of an account may be prepared in the form shown at the right. This form is commonly called a T account because it looks like a capital T.

CASH	
✓	

If you do not have a workbook, prepare T accounts for the eight accounts listed below. Then make a check mark on the proper side of each account to show where the balance should appear in that account.

Cash	Adams Company (Creditor)
Automobile	Daniels Company (Creditor)
Office Furniture	Star Garage (Creditor)
Office Machines	J. M. Greene, Capital

APPLICATION PROBLEMS

Problem 3-1. Posting the opening entry of a parking lot

The opening entry completed in Problem 2-3 of the preceding chapter is required for this problem. If Problem 2-3 has not been returned to you, complete Exercise 3-A in the Appendix.

Instructions: 1. Open the accounts in the ledger that are required for posting the journal entry that you prepared in Problem 2-3. Allow one fourth of a page for each account. Use the account titles and numbers shown below.

<u>Account Title</u>	<u>Account Number</u>	<u>Account Title</u>	<u>Account Number</u>
Cash.....	11	Doyan Lumber Company.....	21
Office Equipment.....	12	Webster Equipment Company.	22
Building.....	13	R. D. Miller, Capital.....	31
Land.....	14		

2. Post the opening entry that you recorded in Problem 2-3.

Self-checking: Compare your work with the illustrations on pages 21 and 22 and ask yourself the self-checking questions given below:

(a) Did you write the year, the month, and the day in each ledger account on the side of the account that was used in posting?

(b) Are all of your postings of debits on the left-hand or debit side of four asset accounts? Are all of your postings of credits on the right-hand or credit side of two liability accounts and one proprietorship account?

(c) Did you write in the Post. Ref. column of each ledger account the journal page number of the entry?

(d) Did you write in the Post. Ref. column of your journal the number of the account to which each line in the journal was posted?

Problem 3-2. Recording and posting the opening entry for an auto repair shop

The balance sheet on September 1 of the Lakeland Repair Shop, owned by Thomas Cassidy, is as follows:

LAKELAND REPAIR SHOP
Balance Sheet
September 1, 19--

Assets		Liabilities	
Cash.....	1,271 00	Auto Supply Company.....	450 80
Parts.....	1,170 70	Hagen and Company.....	151 70
Office Equipment.....	252 10	Total Liabilities.....	602 50
Shop Equipment.....	6,400 00		
		Proprietorship	
		Thomas Cassidy, Capital.....	8,491 30
Total Assets.....	9,093 80	Total Liab. and Prop.....	9,093 80

Instructions: 1. Record on two-column journal paper the opening entry for the balance sheet of the Lakeland Repair Shop. Use the date of September 1 of the current year.

2. Post the opening entry to ledger accounts. Allow one fourth of a page for each account. Number the accounts as follows: asset accounts, 11 to 14; liability accounts, 21 and 22; and capital account, 31.

Self-checking: (1) Compare your opening entry with the illustration on page 22. Check the accuracy of your journalizing by asking yourself the following questions:

(a) Did you write the date at the top of the Date column of the journal, showing the year, the month, and the day?

(b) Does the first letter of each debit item in the Name of Account column touch the vertical red line?

(c) Is each credit item in the Name of Account column indented the same so that the credits do not zigzag back and forth?

(d) Did you write the explanation so that the first word of the explanation is indented about twice as much as the credit items?

Self-checking: (2) Compare your ledger accounts with the illustrations on pages 21 and 22. Check the accuracy of your posting by asking yourself the following questions:

(a) Did you write the year, the month, and the day in each ledger account on the side of the account that was used in posting?

(b) Are all of your postings of debits on the left-hand or debit side of four asset accounts? Are all of your postings of credits on the right-hand or credit side of two liability accounts and one proprietorship account?

(c) Did you write in the Post. Ref. column of each ledger account the journal page number of the entry?

(d) Did you write in the Post. Ref. column of your journal the number of the account to which each line in the journal was posted?

Recording changes in asset and liability accounts

CHAPTER 4

Business transactions. The amounts shown in all the accounts in Chapter 3 were recorded as balances. In this chapter you will learn that account balances are changed by the activities of the business. In business any exchange of one value for another is known as a *business transaction*. Some examples of the most common business transactions are: receiving cash, paying cash, buying anything, selling anything.

Transactions change account balances. Every business transaction increases or decreases the balance of *two or more* accounts in the ledger. In this chapter and the next chapter you will learn how these changes are recorded in a journal.

The immediate record of a cash received transaction. Mr. J. M. Greene is the owner of the Greene Realty Agency. Each time Mr. Greene receives cash, he records the transaction in a receipt book. As he writes each receipt, he makes a carbon copy of it. The original copy is removed from the receipt book and is given to the person from whom the cash is received. The carbon copy of the receipt is kept in the receipt book as an immediate record of the transaction. A carbon copy of the first receipt issued by the Greene Realty Agency is illustrated below.

Carbon copy
of a receipt

No. <u>1</u>	<u>October 1, 1957</u>
RECEIVED FROM <u>H. G. Lee</u>	
<u>Twenty ⁰⁰/₁₀₀</u>	DOLLARS
FOR <u>Used typewriter desk</u>	
\$ <u>20.00</u>	
GREENE REALTY AGENCY	
BY <u>J. M. Greene</u>	

Transaction No. 1 — Increase in one asset and decrease in another asset

The business transaction represented by Receipt No. 1 may be stated as follows:

*October 1, 1957. Received cash, \$20.00, for sale of old office furniture.
Issued Receipt No. 1.*

Journalizing. Every transaction is recorded in a journal to provide complete information about that transaction in one place. Each transaction has two parts: a debit part and a credit part. Both parts of the transaction are recorded in each journal entry. Separating each transaction into its debit part and its credit part and recording them in a journal is called *journalizing*.

The columnar journal. Mr. Greene uses a journal with more than two amount columns in recording his transactions. It saves time in making journal entries. It also saves time in the later posting of these entries from the journal to the ledger. The advantages of using a journal with several amount columns will be developed in the next two chapters.

A journal with more than two amount columns is called a *columnar journal*. The columnar journal used by the Greene Realty Agency is illustrated below.

JOURNAL										PAGE
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS		
DEBIT	CREDIT					DEBIT	CREDIT	INCOME	CREDIT	
1										1
2										2
3										3

A columnar journal

Journal Entry No. 1. The journal entry to record Transaction No. 1 was made from the carbon copy of Receipt No. 1. (See the illustration of the receipt on page 27.) This first journal entry for the month of October, 1957, was written as follows:

JOURNAL										PAGE
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS		
DEBIT	CREDIT					DEBIT	CREDIT	INCOME	CREDIT	
2000		1957 Oct 1	Office Furniture	R 1			2000			1
2										2
3										3
4										4

Analyzing Journal Entry No. 1. This entry was made on Line 1 of the journal.

Date. The steps in recording the date of Entry No. 1 were:

Step 1. The bookkeeper obtained the date of this journal entry from the carbon copy of Receipt No. 1 in the receipt book. (See the illustration of Receipt No. 1 on page 27.)

- Step 2.* The year, 1957, was written at the top of the Date column of the journal as shown in the illustration.
- Step 3.* The abbreviation of the month, Oct., was written in the month section of the Date column on Line 1 of the journal.
- Step 4.* The day of the month, 1, was written in the day section of the Date column on Line 1.

Debit part of Entry No. 1. The cash account was debited by writing \$20.00 in the Cash Debit column on Line 1. The reasons why the cash account was debited were as follows:

In this transaction, \$20.00 in cash was received. The asset Cash was increased. All increases in any asset account must be recorded on the same side of the account in the ledger as the balance of the account.

The *balances* of asset accounts are *debit* balances. Therefore, all increases in any asset account are debits. The cash account is debited each time cash is received.

Increases in assets are recorded in the journal as debits so that, when posted, they can be added conveniently to the *debit balances* in the ledger.

Special columns. Why does the Greene Realty Agency have a special column in the journal with the heading Cash Debit?

Cash received transactions occur often. There will be many cash debits on each page of the journal. A special column with the heading Cash Debit saves time in journalizing and later in posting. It saves time in journalizing because writing the amount in the Cash Debit column indicates clearly that Cash is to be debited without "Cash" being written in the Name of Account column. It saves time later in posting because it is not necessary to post each amount in the Cash Debit column separately. Only the total of a special column needs to be posted. Posting a columnar journal will be presented in Chapter 6.

Credit part of Entry No. 1. The office furniture account was credited by writing \$20.00 in the General Credit column and the words *Office Furniture* in the Name of Account column. The reasons were as follows:

Office furniture was sold. The asset Office Furniture was *decreased*. The amount of the decrease had to be subtracted from the balance of the office furniture account in the ledger.

An amount to be subtracted from a balance is always placed on the *side* of the account that is *opposite* the balance. For example, if an amount is to be subtracted in an account that has a *debit* balance, the amount to be subtracted is placed on the opposite or *credit* side of the account.

An asset account balance is a *debit* balance. Consequently a *decrease* in an asset account is always placed on the *credit* side of the asset account.

General columns. Why doesn't the office furniture account have two special columns in the journal with the headings Office Furniture Debit and Office Furniture Credit?

The Greene Realty Agency rarely buys or sells office furniture. If special columns were provided with the heading Office Furniture Debit and Office Furniture Credit, the columns would be used very seldom. It is more efficient to use the General Debit and General Credit columns for such entries. Therefore, special columns for office furniture transactions are not provided.

Use of number column. In Entry No. 1, *R1* was written in the No. column of the journal to show that Receipt No. 1 was the basis of this journal entry.

At a later date, some information not shown in the journal may be desired. For example, the journal entry does not show what item of office furniture was sold or to whom it was sold. The carbon copy of Receipt No. 1 shows all of this information. It shows that a used typewriter desk was sold to H. G. Lee. *R1* in the number column of the journal shows that this information may be obtained quickly by locating the carbon copy of Receipt No. 1.

Increase in one asset and decrease in another asset. The effect of all transactions of the type represented by Transaction No. 1 may be summarized as follows:

ONE ASSET ACCOUNT		ANOTHER ASSET ACCOUNT	
<i>Debit Side.</i>		<i>Credit Side.</i>	
<i>Increase Side.</i>		<i>Decrease Side.</i>	
1. <i>Increases</i> in assets are recorded as <i>debits</i> in the journal.		1. <i>Decreases</i> in assets are recorded as <i>credits</i> in the journal.	
2. <i>Increases</i> in assets are posted to the left-hand or <i>debit side</i> of the proper asset account in the ledger.		2. <i>Decreases</i> in assets are posted to the right-hand or <i>credit side</i> of the proper asset account in the ledger.	

Two important parts of every transaction — debit and credit. In every journal entry the two important parts, the *debit* amount and the *credit* amount, are always equal. The basic principle of all journalizing may be stated as follows:

Debit part of a transaction = Credit part of that transaction.

Double-entry bookkeeping. The recording of the two parts in each transaction, debit and credit, is often referred to as *double-entry bookkeeping*. Complete bookkeeping, then, is double-entry bookkeeping.

The immediate record of a cash payment transaction. Each time cash is paid by Mr. Greene, he writes a check. Before writing the check, he first fills out the stub of the check. The check stub is an immediate record of each cash payment transaction. Journal entries for all cash payments are then made from the information on the check stubs.

NO. <u>1</u>	\$ <u>25.00</u>
DATE <u>October 1</u>	19 <u>57</u>
TO <u>Adams Co</u>	
FOR <u>On account</u>	
	DOLLARS CENTS
BAL. BRO'T FOR'D	<u>371.00</u>
AMT. DEPOSITED	
TOTAL	
AMT. THIS CHECK	<u>25.00</u>
BAL. CAR'D FOR'D	<u>346.00</u>

Check stub for Transaction No. 2

Transaction No. 2 — Decrease in a liability and decrease in an asset

The business transaction represented by Check Stub No. 1 may be stated as follows:

October 1, 1957. Paid cash, \$25.00, to Adams Company in part payment of the amount owed. Issued Check No. 1.

Journal Entry No. 2. The journal entry to record this transaction was made from the check stub for Check No. 1. The entry to record this cash payment was written on Line 2 of the journal as follows:

JOURNAL										PAGE <u>2</u>
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT		
DEBIT	CREDIT					DEBIT	CREDIT			
1	2000	1957 Oct 1	Office Furniture	R 1				2000		1
2		1	Adams Company	C 1		2500				2
3										3
4										4

Analyzing Journal Entry No. 2. This entry was made on Line 2 of the journal.

Date. The steps in recording the date of Entry No. 2 were:

Step 1. The bookkeeper obtained the date for this entry from Check Stub No. 1.

Step 2. He wrote 1 in the day section of the Date column of the journal. (The year and the month were written at the top of the Date column when the first entry was recorded. The year and the month are written only once on each page of the journal.)

Debit part of Entry No. 2. The Adams Company account was debited by writing \$25.00 in the General Debit column and the words *Adams Company* in the Name of Account column — all on Line 2.

The Adams Company account is a liability account. Liability accounts have credit balances. In this transaction the credit balance of the Adams Company account was *decreased*. A subtraction from the *credit* balance of an account is always shown by *debiting* the account.

Transactions with the Adams Company do not occur often; hence a special column with the heading Adams Company is not desirable. Writing \$25.00 in the General Debit column shows that an account is to be debited for \$25.00; writing the words *Adams Company* in the Name of Account column shows what account is to be debited.

Credit part of Entry No. 2. Cash was credited by writing \$25.00 in the Cash Credit column on Line 2. The account title, Cash, was not written in the Name of Account column because the amount was written in the Cash Credit column. The heading of this column shows that Cash was credited.

The cash account was credited in this entry because the asset Cash was decreased by writing Check No. 1. *Decreases* in assets are always shown as *credits*. The cash account is credited each time cash is paid.

Use of number column. *C1* was written in the No. column to show that Check No. 1 was issued in this transaction. The letter *C* in the No. column stands for check and is followed by the number of the check. The proper check number is obtained from the check stub.

The number in the No. column shows which check stub has the additional details about this transaction. Since this information can be located quickly when needed, it is not necessary to record any of these details in the journal entry.

Decrease in a liability and decrease in an asset. The effect of all transactions of this type may be summarized as follows:

ANY ASSET ACCOUNT		ANY LIABILITY ACCOUNT	
Debit Side. Increase Side.	Credit Side. Decrease Side.	Debit Side. Decrease Side.	Credit Side. Increase Side.
	1. <i>Decreases</i> in assets are recorded as <i>credits</i> in the journal.	1. <i>Decreases</i> in liabilities are recorded as <i>debits</i> in the journal.	
	2. <i>Decreases</i> in assets are posted to the right-hand or <i>credit side</i> of the proper asset account in the ledger.	2. <i>Decreases</i> in liabilities are posted to the left-hand or <i>debit side</i> of the proper liability account in the ledger.	

Transaction No. 3 — Increase in one asset and decrease in another asset

*October 2, 1957. Paid cash, \$37.50, for purchase of new office desk.
Issued Check No. 2.*

Each time a check is issued, the check stub is the immediate record of the transaction. The immediate record of Transaction No. 3 is Check Stub No. 2.

Journal Entry No. 3. The journal entry to record this transaction was made from the check stub for Check No. 2. The entry to record this cash payment was written on Line 3 of the journal as follows:

JOURNAL										PAGE 2
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT		
DEBIT	CREDIT					DEBIT	CREDIT			
1	2000	1957 Oct. 1	Office Furniture	R 1			2000		1	
2			Adams Company	C 1		2500			2	
3			Office Furniture	C 2		3750			3	
4									4	
5									5	

Analyzing Journal Entry No. 3. This entry was recorded on Line 3 of the journal.

Date. In recording the date of Entry No. 3, Mr. Greene wrote the figure 2 in the day section of the Date column. (As was explained in the analysis of Journal Entry No. 2, the month and the year are written only once on each page of the journal.)

Debit part of Entry No. 3. The amount to be debited, \$37.50, was written in the General Debit column. The office furniture account is an asset account. Asset accounts have debit balances. In this transaction, the asset account Office Furniture was increased. Increases in an asset account are recorded on the same side as the debit balance. Office Furniture was therefore debited. As explained previously, transactions involving office furniture occur rarely, and amount columns are not provided for such transactions. The General Debit column was therefore used.

Credit part of Entry No. 3. The amount to be credited, \$37.50, was written in the Cash Credit column. (The heading, Cash Credit, shows that the cash account is credited for each amount in this special column. Therefore, it was not necessary to write "Cash" in the Name of Account column for the credit part of this transaction.)

Use of number column. C2 was written in the No. column. It shows that Check No. 2 was written for this cash payment.

Recording additional transactions. The first three transactions recorded in the journal shown below were discussed in the preceding paragraphs. The additional transactions were recorded in a similar manner. Each entry shows a debit or a credit to Cash and a debit or a credit to another asset account or to a liability account.

JOURNAL										
1		2	3		4	5		PAGE 2		
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME	CREDIT	
DEBIT	CREDIT					DEBIT	CREDIT			
2000		Oct. 1	Office Furniture	R 1			2000			1
	2500	1	Adams Company	C 1		2500				2
	3750	2	Office Furniture	C 2		3750				3
1500		2	Office Machines	R 2			1500			4
	4200	2	Star Garage	C 3		4200				5
	7600	3	Office Machines	C 4		7600				6
	3900	3	Office Furniture	C 5		3900				7
	10000	4	Daniels Company	C 6		10000				8
1800		5	Office Furniture	R 3			1800			9
										10

Principles of journalizing cash receipts and cash payments. Examine the journal above and note the application of the following principles of journalizing:

1. The complete record of each transaction is written on a single line.
2. For each amount in a *debit column* there is an equal amount in a *credit column*.
3. All cash receipts are increases in the asset Cash and are recorded as debits in the Cash Debit column.
4. All cash payments are decreases in the asset Cash and are recorded as credits in the Cash Credit column.
5. Each time Cash is *debited* in the Cash Debit amount column, the title of the account to be credited is written in the Name of Account column. The amount of the *credit* is then recorded in the General Credit column.
6. Each time Cash is *credited* in the Cash Credit amount column, the name of the account to be debited is written in the Name of Account column. The amount of the *debit* is then recorded in the General Debit column.
7. The journal entry for each cash received transaction is made from the information given on the carbon copy of the receipt in the receipts book.
8. The journal entry for each cash payment transaction is made from the information given on the check stub.

Commissions Income Credit column. In this chapter you have studied selected transactions in which no income was involved. The use of the Commissions Income Credit column will be studied in the next chapter.

CHAPTER QUESTIONS

1. How do business transactions affect account balances?
2. What form of business paper is used in this chapter as the immediate record of each cash received transaction?
3. What are the two parts of each business transaction?
4. What are the parts of the journal entry illustrated on page 28?
5. What are the steps in writing the date of the first entry in the journal?
6. Is the cash account debited or credited when cash is received? Why?
7. Is the cash account debited or credited when cash is paid? Why?
8. What are the advantages of having special columns in the journal for recording debits and credits to the cash account?
9. What is the meaning of "R1" in the No. column of Line 1 of the journal on page 34? of "C1" in the No. column of Line 2?
10. What business paper is used as the immediate record of each cash payment transaction?
11. What are the two steps in writing the date of the second entry in the journal?
12. Why does not the journal in this chapter have special columns for the Adams Company account? for the furniture account?

INCREASING YOUR BUSINESS VOCABULARY

What is the meaning of each of the following:

- | | |
|--------------------------|------------------------------|
| (a) business transaction | (c) columnar journal |
| (b) journalizing | (d) double-entry bookkeeping |

CASES FOR DISCUSSION

1. Roger Allen uses a receipt book that has a receipt stub record for each receipt issued. Richard West uses a receipt book that has a carbon copy for each receipt issued and no stub record. What are the advantages of West's plan of using a carbon copy of each receipt issued instead of a receipt stub record?
2. John Underwood is very particular about writing the stub of each check before he writes the check. As Charles Wilde is often in a hurry, he writes the check first and fills in the stub later. Why is Wilde's check-writing habit of sometimes writing the check before he fills in the stub not a good habit?

DRILLS FOR UNDERSTANDING

Drill 4-A. For each entry in the journal illustrated on page 34 you are to tell what account is debited and what account is credited.

Instructions: 1. If you do not have a workbook, take a sheet of paper and draw a line through the middle of it from top to bottom. Rule a narrow column at the left edge of your paper as shown below. At the top of your paper, copy the headings of the following form:

Line No.	Title of Account Debited	Title of Account Credited
1	Cash	Office Furniture

2. Turn to the completed journal of this chapter illustrated on page 34. On the form that you have just prepared or that you find in your workbook, copy the analysis of Line No. 1 of that journal as shown above.

3. Write a similar analysis of each of the remaining entries (Lines 2 to 9) of the journal illustrated on page 34.

Drill 4-B. For each entry in the journal illustrated on page 34 you are to tell whether an asset was increased or decreased, or whether a liability was increased or decreased.

Instructions: 1. If you do not have a workbook, take a sheet of paper and draw a line through the middle of it from top to bottom. Rule a narrow column at the left edge of your paper as shown below. At the top of your paper, copy the headings of the following form:

Line No.	Effect of Debit Entry	Effect of Credit Entry
1	Increased an asset	Decreased an asset

2. Turn to the completed journal of this chapter illustrated on page 34. On the form that you have just prepared or that you find in your workbook, copy the analysis of Line No. 1 of that journal as shown above.

3. Write a similar analysis of each of the remaining lines (Lines 2 to 9) of the journal illustrated on page 34.

Drill 4-C. *Instructions: 1.* If you do not have a workbook, rule five columns on a sheet of paper and copy the headings of the following form:

Trans. No.	Title of Account Debited	Effect of the Debit	Title of Account Credited	Effect of the Credit
1	Cash	Increased an asset	Office Machines	Decreased an asset

2. A series of transactions is given at the top of page 37. Read Transaction 1. Then copy the analysis that is given as an example.

3. Write a similar analysis of Transactions 2 to 9.

Transactions:

1. Received cash from sale of old office machine.
2. Paid cash for purchase of additional office furniture.
3. Paid cash to Hickey Company in partial payment of amount owed to them.
4. Received cash from sale of old office furniture.
5. Paid cash for additional office machines.
6. Paid cash to Burns Garage in full payment of the amount owed to them.
7. Paid cash to Atlas Company in part payment of the amount owed to them.
8. Received cash from sale of old office furniture.
9. Paid cash for additional office machines.

APPLICATION PROBLEMS

Problem 4-1. Journalizing the transactions of a laundry

The Olson Laundry is owned and operated by Donald Olson. Some of the account titles in his ledger are listed below. These are not all of the accounts in his ledger, but they are all of the accounts that you will need to use.

Partial list of accounts in ledger of Olson Laundry

<u>Assets</u>	<u>Liabilities</u>
Cash	Atlas Company
Office Furniture	Burns Garage
Office Machines	Hickey Company

Instructions: Record in a five-column journal the selected transactions given below. Use as your guide the model journal that is illustrated on page 34. Use the current year in recording the date.

Transactions:

- Oct. 1. Received cash, \$30.00, from sale of used office machine. Issued Receipt No. 1.
1. Paid cash, \$84.00, for purchase of new office furniture. Issued Check No. 1.
1. Paid cash, \$550.00, to Hickey Company in part payment of amount owed to them. Issued Check No. 2.
2. Received cash, \$150.00, from sale of used office furniture. Issued Receipt No. 2.
2. Paid cash, \$300.00, for new office machines. Issued Check No. 3.
2. Paid cash, \$85.00, to Burns Garage in full payment of the amount owed to them. Issued Check No. 4.
2. Paid cash, \$25.00, to Atlas Company in part payment of the amount owed to them. Issued Check No. 5.
3. Received cash, \$60.00, from sale of old office furniture. Issued Receipt No. 3.
3. Paid cash, \$194.00, for additional office machines. Issued Check No. 6.

Increases and decreases in proprietorship. The business transactions studied in Chapter 4 showed changes in the *assets* and the *liabilities* of the business. In this chapter you will study transactions that cause changes in *proprietorship*.

Some transactions increase proprietorship; some transactions decrease proprietorship. An *increase* in proprietorship that results from a business transaction is called *income*. A *decrease* in proprietorship that results from a business transaction is called *expense*.

Income accounts. Mr. Greene's real estate business has income from commissions earned for sales and rentals of property. All commissions earned are recorded in an income account with the title *Commissions Income*.

In the insurance business a similar account frequently has the title *Premiums Income*. Attorneys and accountants use a similar account that has the title *Fees Income*. These income accounts will be developed later.

Transaction No. 10 — An income transaction

October 5. Received cash, \$600.00, as commission for the sale of a house. Issued Receipt No. 4.

Commissions for services rendered in selling property are collected by Mr. Greene at the rate of 5 per cent of the sale price of the property. In this transaction, Mr. Greene sold property for \$12,000.00 and collected a commission of \$600.00.

The immediate record of an income transaction. Each time Mr. Greene receives cash, he issues a receipt with a carbon copy. He gives the receipt to his customer and keeps the carbon copy in his receipt book. Later, when Mr. Greene returns to his office, he records each receipt in his journal.

Journal entry for Transaction No. 10. From the information on the carbon copy of Receipt No. 4, Mr. Greene made the following journal entry:

JOURNAL										PAGE 2
1 CASH		2		3		4		5		
DEBIT	CREDIT	DATE	NAME OF ACCOUNT	NO.	POST. REF.	DEBIT	CREDIT	COMMISSIONS INCOME	CREDIT	
2000		1957 Oct 1	Office Furniture	R 1			2000			
600.00		5	Commissions Income	R 4				600.00		

Step 2

Step 1

Step 3

Step 4

Analyzing Journal Entry No. 10. This entry was made on Line 10 of the journal begun in the preceding chapter. (See the illustration of the journal on page 34.) In this entry Cash was debited and Commissions Income was credited. The steps in recording Transaction No. 10 were:

Step 1 — Date. To record the date of Entry No. 10, Mr. Greene wrote the figure 5 in the day section of the Date column. The year and the month, 1957 and October, had been written previously at the top of the Date column. The year and the month were not repeated on this page.

Step 2 — Debit part of entry. The cash account was debited by writing \$600.00 on Line 10 in the Cash Debit column. The cash account was debited because the transaction increased the asset Cash and all increases in assets are debits.

Step 3 — Credit part of entry. The commissions income account was credited (a) by writing \$600.00 on Line 10 in the Commissions Income Credit column and (b) by writing *Commissions Income* in the Name of Account column. Commissions Income was credited because this transaction caused an increase in income, that is, an increase in proprietorship.

The capital of the owner (proprietorship) is listed on the right-hand side of the balance sheet and is recorded on the right-hand side (credit side) of his *Capital* account. If incomes were recorded directly in the proprietor's capital account, they would be recorded as *credits*. Therefore, when a separate account is kept for income transactions, an income account is credited.

Step 4 — Use of number column. R4 was written in the number column. It shows that Receipt No. 4 was the immediate record of this cash received transaction.

Why is there a special column for Commissions Income? As explained in Chapter 4, whenever an account in the ledger is debited or credited frequently during the month, a special column in the journal saves labor.

A special column in the journal has as its heading the title of an account in the ledger. This column saves time in posting to the ledger

because it is not necessary to post each amount separately. Only the total of the special column needs to be posted.

Since the column heading is Commissions Income Credit, the account title Commissions Income might be omitted from the Name of Account column, but it is ordinarily written. Not every receipt of cash comes from Commissions Income. Writing *Commissions Income* in the Name of Account column shows that the transaction was correctly recorded when the amount was written in the Commissions Income Credit column.

Checking the accuracy of each entry. Note that all of the journal entry for this transaction was placed on one line. Cash was *debited* for \$600.00 and Commissions Income was *credited* for \$600.00.

In each journal entry the amount of the debit part of the entry must be equal to the amount of the credit part of the entry.

The effect of income transactions. The effect of all transactions of the type represented by Transaction No. 10 may be summarized as follows:

ANY ASSET ACCOUNT

Debit Side. Increase Side.	Credit Side. Decrease Side.
1. <i>Increases</i> in assets are recorded as <i>debits</i> in the journal.	
2. <i>Increases</i> in assets are posted to the left-hand or <i>debit side</i> of the proper asset account in the ledger.	

ANY INCOME ACCOUNT

Debit Side. Decrease Side.	Credit Side. Increase Side.
	1. <i>Increases</i> in proprietorship are recorded as <i>credits</i> in the journal.
	2. <i>Incomes</i> are <i>increases</i> in proprietorship.
	3. <i>Incomes</i> are posted to the right-hand or <i>credit side</i> of the proper income account in the ledger.

Transaction No. 11 — An expense transaction

October 5. Paid cash, \$120.00, for rent of office for October. Issued Check No. 7.

Immediate record of cash payment. All of the details needed for making a journal entry of this transaction are shown on the check stub for Check No. 7. This check stub is illustrated at the right. It shows that Check No. 7 was issued on October 5 to pay the rent of the office for the month of October.

NO. <u>7</u>		\$ <u>120.00</u>	
DATE <u>October 5</u> , 19 <u>57</u>			
TO <u>Klein & Co</u>			
FOR <u>Oct. office rent</u>			
	DOLLARS	CENTS	
BAL. BRO'T FOR'D	<u>86</u>	<u>50</u>	
AMT. DEPOSITED	<u>618</u>	<u>00</u>	
TOTAL	<u>704</u>	<u>50</u>	
AMT. THIS CHECK	<u>120</u>	<u>00</u>	
BAL. CAR'D FOR'D	<u>584</u>	<u>50</u>	

Check stub for Check No. 7

Journal entry for payment of rent. From the information given on Check Stub No. 7, Mr. Greene made the following journal entry:

JOURNAL										PAGE 2
CASH		DATE	NAME OF ACCOUNT	NO.	POST REF.	GENERAL		COMMISSIONS INCOME CREDIT		
DEBIT	CREDIT					DEBIT	CREDIT			
1	2000	1931 Oct 1	Office Furniture	R 1			2000		1	
10	60000		5 Commissions Income	R 4				60000	10	
11		12000	5 Rent Expense	C 7		12000			11	

Step 3

Step 1

Step 2

Step 4

Step 1 — Date of entry. Only the day of the month, 5, was written in the Date column of the journal. This was the date of the check that was issued in this transaction.

Step 2 — Debit part of entry. The rent expense account was debited (a) by writing \$120.00 in the General Debit column and (b) by writing *Rent Expense* in the Name of Account column. The payment of rent occurs only once each month. For this reason, a special column for rent expense would not save labor.

Expenses *decrease* proprietorship. All *decreases* in proprietorship are *debits* to the proper account. If the decrease in proprietorship is the result of expenses in the operation of the business, an *expense* account is debited.

Step 3 — Credit part of entry. The amount to be credited, \$120.00, was written in the Cash Credit column. Cash was credited because this asset was decreased.

Step 4 — Use of number column. C7 was written in the number column to show that Check No. 7 was issued in this transaction.

The effect of expense transactions. The effect of all expense transactions may be summarized as follows:

ANY EXPENSE ACCOUNT		ANY ASSET ACCOUNT	
Debit Side. Increase Side.	Credit Side. Decrease Side.	Debit Side. Increase Side.	Credit Side. Decrease Side.
1. <i>Increases</i> in expenses are recorded as <i>debits</i> in the journal.			1. <i>Decreases</i> in assets are recorded as <i>credits</i> in the journal.
2. <i>Increases</i> in expenses are posted to the left-hand or <i>debit side</i> of the proper expense account in the ledger.			2. <i>Decreases</i> in assets are posted to the right-hand or <i>credit side</i> of the proper asset account in the ledger.

Transaction No. 12 — An expense transaction

October 8. Paid cash, \$25.00, for gas and oil used in operating the automobile. Issued Check No. 8.

Immediate record of cash payment. All of the details of this transaction were recorded on Check Stub No. 8. The check stub is similar to the one illustrated for Transaction No. 11.

Journal entry for payment of automobile expense. From the information given on Check Stub No. 8, Mr. Greene made the following entry:

JOURNAL										PAGE 2
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT		
DEBIT	CREDIT					DEBIT	CREDIT			
2000		1957 Oct 1	Office Furniture	R 1			2000		1	
60000		5	Commissions Income	R 4				60000	10	
	12000	5	Rent Expense	C 7		12000			11	
	2500	8	Automobile Expense	C 8		2500			12	

Step 3

Step 1

Step 2

Step 4

Step 1 — Date of journal entry. Only the day of the month, 8, was written in the Date column on Line 12 of the journal.

Step 2 — Debit part of entry. Automobile Expense was debited (a) by writing \$25.00 in the General Debit column and (b) by writing *Automobile Expense* in the Name of Account column. Mr. Greene charged every expense incurred in connection with the use of the automobile to Automobile Expense. As was explained in Transaction No. 11, every expense transaction is recorded as a debit to the proper expense account.

Step 3 — Credit part of journal entry. The amount, \$25.00, was written in the Cash Credit column because the asset Cash had been decreased by that amount.

Step 4 — Use of number column. C8 was written in the number column to show that Check No. 8 was issued in this transaction.

Entry No. 13 to Entry No. 26. The transactions for the remainder of October were similar to those discussed. The complete journal of the Greene Realty Agency for October is illustrated on page 44.

The Greene Realty Agency maintains five expense accounts: Advertising Expense, Automobile Expense, Entertainment Expense, Miscellaneous Expense, and Rent Expense. Miscellaneous Expense is debited for all expenses that should not be charged to one of the other accounts.

JOURNAL

PAGE 2

CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT
DEBIT	CREDIT					DEBIT	CREDIT	
2000		1937 Oct 1	Office Furniture	R 1			2000	
	2500	1	Adams Company	C 1		2500		
	3750	2	Office Furniture	C 2		3750		
1500		2	Office Machines	R 2			1500	
	4200	2	Star Garage	C 3		4200		
	7600	3	Office Machines	C 4		7600		
	3900	3	Office Furniture	C 5		3900		
	10000	4	Daniels Company	C 6		10000		
1800		5	Office Furniture	R 3			1800	
60000		5	Commissions Income	R 4				60000
	12000	5	Rent Expense	C 7		12000		
	2500	8	Automobile Expense	C 8		2500		
24000		12	Commissions Income	R 5				24000
	17500	12	Office Machines	C 9		17500		
	763	13	Advertising Expense	C 10		763		
2500		14	Commissions Income	R 6				2500
37500		15	Commissions Income	R 7				37500
	450	16	Miscellaneous Expense	C 11		450		
1000		18	Office Furniture	R 8			1000	
	5000	18	Star Garage	C 12		5000		
4200		19	Commissions Income	R 9				4200
	500	22	Entertainment Expense	C 13		500		
	978	22	Advertising Expense	C 14		978		
	752	25	Miscellaneous Expense	C 15		752		
4560		29	Commissions Income	R 10				4560
5000		30	Commissions Income	R 11				5000
1440.60	7239.3	31	Totals			7239.3	6300	1377.60

Journal of Greene Realty Agency for October

Footings the journal. At the end of the month all amount columns of the journal were added. The total of each amount column was written in small pencil figures immediately under the last entry. Pencil totals are commonly called *footings*.

Checking the accuracy of journal entries and footings. On a separate sheet of paper the footings of the debit columns were listed and added. The footings of the credit columns were also listed and added. The calculations are shown below:

Cash Debit Footing.....	\$1,440.60	Cash Credit Footing.....	\$ 723.93
General Debit Footing.....	723.93	General Credit Footing.....	63.00
		Commissions Income Credit	
		Footings.....	1,377.60
Total Debits.....	\$2,164.53	Total Credits.....	\$2,164.53

The sum of the totals of the *two debit* columns should equal the sum of the totals of the *three credit* columns. If the total of the debits does not equal the total of the credits, it shows that one or more errors have been made. The error or errors should be located and corrected.

Ruling the journal. After the equality of debits and credits was proved, a single line was drawn across all amount columns under the last entry. The totals of the columns were then entered in ink. The last day of the month was written in the Date column on the line with the totals. The word "Totals" was written in the Name of Account column. A double line was drawn across all columns except the Name of Account column. A ruler should always be used in drawing lines. Either red or black ink may be used.

The foregoing instructions apply to situations such as the one illustrated on page 44, where the journal page is not filled at the end of the month.

When a page that is filled is totaled, the printed rulings at the bottom of the page are used and ruling with a pen is unnecessary. If a page that is almost full is totaled, the printed rulings at the bottom of the page may also be used. In this case the spaces between the last entry and the printed rulings are canceled with a diagonal line drawn from the Date column to the Post. Ref. column.

Examine carefully the footings, totals, and rulings of the journal of the Greene Realty Agency on page 44.

Correcting errors as they are found in the journal. An error may be made in recording a transaction in the journal. If an error is in the amount, the incorrect amount should be canceled by drawing a line through it. The correct amount should then be written immediately above the canceled amount.

An error in an account title is corrected by drawing a line through the incorrect title and writing the correct title immediately above the canceled title.

Corrections of an error in an amount and of an error in an account title are shown in the illustration below.

JOURNAL									
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME	CREDIT
DEBIT	CREDIT					DEBIT	CREDIT		
1	2000	1957 Oct. 1	Office Furniture	R 1			2000		1
24	752 725	25	Miscellaneous Advertising Expense	C 15		752			24
25	4560	29	Commissions Income	R 10				4560	25

CHAPTER QUESTIONS

1. What form of business paper does Mr. Greene use as the immediate record of each income transaction?
2. What effect does cash received for commissions income have on Mr. Greene's proprietorship?
3. Why does Mr. Greene have a special column in his journal for Commissions Income Credit?
4. Why is it customary to write the words *Commissions Income* in the Name of Account column of Mr. Greene's journal when recording a commission transaction?
5. What form of business paper does Mr. Greene use as his immediate record of each expense transaction?
6. Why doesn't Mr. Greene have a special column in his journal for each expense account?
7. Why is it necessary to write the name of the expense account in the Name of Account column each time an expense account is debited in Mr. Greene's journal?
8. If an amount in the journal is recorded incorrectly, how is the error corrected?

INCREASING YOUR BUSINESS VOCABULARY

What is the meaning of each of the following:

- | | |
|-------------|--------------------|
| (a) income | (c) special column |
| (b) expense | (d) footings |

CASES FOR DISCUSSION

1. Both William Myers and John Cole use columnar journals similar to the one illustrated on page 44. When William Myers records Commissions Income, he records the debit in the Cash Debit column and the credit in the Commissions Income Credit column and makes a check mark in the Name of Account column. John Cole follows the same procedure except that he writes the account title, Commissions Income, in the Name of Account column. Which person do you believe follows the better plan? Why?
2. John Cole refers to all of his cash payments as "my expenses." William Myers tells him that some cash payments increase the value of assets and that others decrease the amount of liabilities. Refer to the journal on page 44 and indicate which of the cash payments are not payments of expenses.

DRILLS FOR UNDERSTANDING

The following drills are planned to give you additional skill, accuracy, and speed in selecting proper account titles for business transactions and in analyzing the effect of the transactions.

Drill 5-A. For the entries on Lines 10 to 26 of the journal illustrated on page 44 you are to tell what account title is debited and what account title is credited.

Instructions: 1. If you do not have a workbook, take a sheet of paper and draw a line down through the middle of it from top to bottom. Rule a narrow column at the left of your paper. At the top of your paper, copy the following headings:

Line No.	Title of Account Debited	Title of Account Credited
10	Cash	Commissions Income

2. Turn to the completed journal of this chapter illustrated on page 44. On the form that you have just prepared or that you found in your workbook, copy the analysis of Line 10 of that journal in the manner shown above.

3. Write a similar analysis of each of the remaining entries (Lines 11 to 26) of the journal illustrated on page 44.

Drill 5-B. For the entries on Lines 10 to 26 in the journal illustrated on page 44 you are to tell whether an asset, a liability, or the proprietorship was increased or decreased.

Instructions: 1. If you do not have a workbook, take a sheet of paper and draw a line through the middle of it from top to bottom. Rule a narrow column at the left edge of your paper. At the top of your paper, copy the following headings:

Line No.	Effect of Debit Entry	Effect of Credit Entry
10	Increased an asset	Increased proprietorship

2. Turn to the completed journal of this chapter illustrated on page 44. On the form that you have just prepared or that you found in your workbook, copy the analysis of Line 10 of that journal in the manner shown above.

3. Write a similar analysis of each of the remaining lines (Lines 11 to 26) of the journal illustrated on page 44. If the debit is an expense account, write "Decreased proprietorship"; if the credit is an income account, write "Increased proprietorship."

Drill 5-C. For each of the transactions given below you are to indicate the account debited and the account credited and the effect of each debit and each credit.

Instructions: 1. If you do not have a workbook, rule five columns on a sheet of paper and copy the headings of the following form. Also copy the analysis of Transaction 1, which is given as an example.

1	2	3	4	5
Trans. No.	Title of Account Debited	Effect of the Debit	Title of Account Credited	Effect of the Credit
1	Cash	Increased an asset	Commissions Income	Increased proprietorship

2. Write a similar analysis of Transactions 2 to 15, using the following account titles in Columns 2 and 4:

Account Titles:

Cash
Automobile
Office Furniture
Office Machines
Atlas Company
Thompson Garage

Commissions Income
Advertising Expense
Automobile Expense
Electricity Expense
Rent Expense
Stationery Expense
Telephone Expense

Transactions:

- Received cash as commission from sale of a house. (You have copied this answer.)
- Received cash from sale of old office furniture.
- Paid cash for rent of office for October.
- Paid cash for gas and oil used in operating the automobile.
- Received cash from sale of old office machine.
- Paid cash to Atlas Company in partial payment of the amount owed.
- Paid cash for purchase of new office furniture.
- Paid cash to Thompson Garage in partial payment of amount owed.
- Paid cash for purchase of new office machine.
- Received cash as commission from sale of a house.
- Paid cash for office stationery.
- Paid cash for advertising.
- Received cash as commission for renting a house.
- Paid cash for telephone bill.
- Paid cash for electric bill.

APPLICATION PROBLEMS

Problem 5-1. Journalizing transactions of a real estate business

Instructions: 1. Record the following transactions of the Hackett Realty Agency in a five-column journal. Use as your model the five-column journal form illustrated on page 44. In the Name of Account column of your journal, use the account titles listed in Drill 5-C.

Transactions:

- Oct. 1. Received cash, \$200.00, as commission from sale of a house. Issued Receipt No. 1.
2. Received cash, \$16.00, from sale of old office furniture. Issued Receipt No. 2.
2. Paid cash, \$75.00, for rent of office for October. Issued Check No. 1.
4. Paid cash, \$5.50, for gas and oil for automobile. Issued Check No. 2.
5. Received cash, \$36.00, from sale of old office machine. Issued Receipt No. 3.
7. Paid cash, \$95.50 to Atlas Company in part payment of account. Issued Check No. 3.
10. Paid cash, \$114.00, for new office furniture. Issued Check No. 4.
12. Paid cash, \$32.50, to Thompson Garage in part payment of amount owed them. Issued Check No. 5.
15. Paid cash, \$125.00, for a new office machine. Issued Check No. 6.
17. Received cash, \$120.00, as commission from sale of a house. Issued Receipt No. 4.
19. Paid cash, \$6.00, for office stationery. Issued Check No. 7.
23. Paid cash, \$2.50, for advertisement in paper. Issued Check No. 8.
25. Received cash, \$55.00, as commission from renting a house. Issued Receipt No. 5.
29. Paid cash, \$10.00, for telephone bill. Issued Check No. 9.

Instructions: 2. Foot each of the five columns of your journal, using small pencil figures. Place these tiny pencil figures close to the line above so that they seem to hang from it. Study the model journal on page 44.

3. Prove the equality of debits and credits in your journal by finding the sum of all the debit totals and then the sum of all the credit totals. The sum of the two debit columns should equal the sum of the three credit columns.

4. If the sum of the totals of the debits in your journal is equal to the sum of the totals of the credits, rule a single line across all amount columns of your journal. Compare your work with the journal on page 44.

5. Write the totals of each column in ink. Label these totals by writing the word *Totals* in the Name of Account column. All of these totals should be on the same line. Compare your work with the journal on page 44.

6. Rule double lines across all columns except the Name of Account column immediately below the totals. Use as your model the completed journal on page 44.

Problem 5-2. Journalizing transactions of a public accountant

Robert Pepper is a public accountant and obtains his income from fees for professional accounting services. The title he uses for his income account is *Fees Income*.

Instructions: 1. Record on page 2 of a five-column journal the selected transactions given below. Use the following account titles:

<i>Account Titles in Robert Pepper's Ledger</i>		
<i>Assets</i>	<i>Liabilities</i>	<i>Income</i>
Cash	Metcalf Company	Fees Income
Automobile	O'Brien Company	
Office Furniture		<i>Expenses</i>
Professional Library	<i>Proprietorship</i>	Automobile Expense
	Robert Pepper, Capital	Miscellaneous Expense
		Rent Expense

Transactions:

- Oct. 1. Paid cash, \$100.00, for rent of the office for October. Issued Check No. 1.
1. Paid cash, \$8.00, for parking space for the automobile for October. This is automobile expense. Issued Check No. 2.
2. Received cash, \$15.00, from sale of old office desk. This is office furniture. Issued Receipt No. 1.
2. Received cash, \$185.00, for accounting services. This is fees income. Issued Receipt No. 2.
2. Paid cash, \$5.00, for gas and oil for automobile. Issued Check No. 3.
3. Paid cash, \$240.00, for a new desk and a bookcase. Issued Check No. 4.
4. Received cash, \$270.00, for accounting services. Issued Receipt No. 3.
10. Received cash, \$175.00, for accounting services. Issued Receipt No. 4.
14. Paid cash, \$8.50, for a new book on accounting. This is professional library. Issued Check No. 5.
15. Received cash, \$250.00, for accounting services. Issued Receipt No. 5.
19. Received cash, \$110.00, for accounting services. Issued Receipt No. 6.
22. Paid cash, \$160.00, to the O'Brien Company for amount owed on account. Issued Check No. 6.
25. Paid cash, \$30.00, to the Metcalf Company for amount owed on account. Issued Check No. 7.
29. Received cash, \$190.00, for accounting services. Issued Receipt No. 7.
31. Paid cash, \$15.00, for the electric bill for October. This is miscellaneous expense. Issued Check No. 8.
31. Paid cash, \$9.50, for the telephone bill for October. This is miscellaneous expense. Issued Check No. 9.

Instructions: 2. Foot each of the five columns of your journal.

3. Prove the equality of debits and credits in your journal.

4. Record the column totals.

5. Rule the journal.

This problem will be continued in the next chapter. If it is collected by your teacher at this time, it will be returned to you before it is needed in Problem 6-1.

Need for posting transactions. The journal of the Greene Realty Agency on page 44 is a record of all transactions for the month of October. Each journal entry has changed the balance of two accounts. To provide a clear picture of the effect of these changes on account balances, it is now necessary to post all the journal entries to Mr. Greene's ledger.

Order of arrangement of accounts in the ledger. All accounts of one kind are grouped together in the ledger. It is customary to have separate groups for assets, liabilities, proprietorship, income, and expenses. Each of these groups is called a division of the ledger.

Some businesses have more than five divisions in the ledger. These variations will be developed in later chapters. For example, the ledger on page 229 has six divisions.

A list of accounts that shows the arrangement of the accounts in the ledger is called a *chart of accounts*. The chart of accounts of the Greene Realty Agency ledger is arranged as follows:

Chart of accounts

(1) ASSETS		(3) PROPRIETORSHIP		(5) EXPENSES	
ACCT. No.		ACCT. No.		ACCT. No.	
11	Cash	31	J. M. Greene, Capital	51	Advertising Expense
12	Automobile			52	Automobile Expense
13	Office Furniture	(4) INCOME		53	Entertainment Expense
14	Office Machines	41	Commissions Income	54	Miscellaneous Expense
				55	Rent Expense
(2) LIABILITIES					
21	Adams Company				
22	Daniels Company				
23	Star Garage				

Numbering accounts in the ledger. Note that each account number has two digits. The first digit indicates the division of the ledger; the second digit indicates the number of the account within that division. For example, the office machines account is numbered 14. The first digit, 1,

indicates that the office machines account is an asset account. The second digit, 4, indicates that the office machines account is the fourth account in the asset division.

The number of each asset account starts with the figure 1; the number of each liability account, with the figure 2; the number of each proprietorship account, with the figure 3; the number of each income account, with the figure 4; and the number of each expense account, with the figure 5. Within each division the accounts are numbered consecutively.

Posting the journal of the Greene Realty Agency. Each individual amount in the General Debit and the General Credit columns of the journal must be posted separately because these amounts apply to many different accounts. Each amount in the General columns is posted to the account named in the Name of Account column. Only the totals of the three special columns in the journal are posted.

Steps in posting the journal. The first entry on page 2 of the journal of the Greene Realty Agency is shown below.

JOURNAL										
1		2					3		4	
CASH		DATE		NAME OF ACCOUNT			GENERAL		COMMISSIONS	
DEBIT	CREDIT						DEBIT	CREDIT	INCOME	CREDIT
2000		1957	Oct. 1	Office Furniture				2000		

This entry shows a debit to Cash and a credit to Office Furniture. The debit to Cash in the Cash Debit column is not posted separately. At the end of the month the column will be added and the total will be posted as one amount.

To post the credit part of this entry, proceed as follows:

Step 1. Open the ledger to the account named on the first line of the journal, Office Furniture. This account contains a debit balance, which was recorded when the opening entry was made.

Office Furniture							
ACCOUNT NO. 13							
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957							
Oct. 1	Balance	1	74560				

[illegible]

Since this is the first entry on the credit side of the office furniture account, it is necessary to write the complete date: 1957, Oct. 1.

Step 5. Return to the journal and write in the Post. Ref. column of the journal the number of the ledger account, 13.

JOURNAL										PAGE 2
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT		
DEBIT	CREDIT					DEBIT	CREDIT			
2000		1957 Oct 1	Office Furniture	R 1	13		2000			

Chapter 6. Posting 53

Steps in posting the second entry. The journal of the Greene Realty Agency, including the first two transactions for the month of October, is shown below.

JOURNAL												PAGE 2
1		2		3				4		5		
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT				
DEBIT	CREDIT					DEBIT	CREDIT					
1	2000	1937 Oct. 1	Office Furniture	R 1	13		2000		1			
2			Adams Company	C 1		2500			2			
3									3			
4									4			
5									5			

The second entry in the journal shows a debit to Adams Company and a credit to Cash. The credit to Cash in the Cash Credit column will be posted at the end of the month. At that time, the column will be added and the total will be posted as one amount.

Before the debit is posted to the account of the Adams Company, the account appears as follows:

Adams Company										ACCOUNT NO. 21
DATE		ITEMS		POST. REF.	DEBIT	DATE		ITEMS	POST. REF.	CREDIT
						1937	Oct. 1	Balance	1	9100

The steps in posting this entry are similar to the steps in posting the first entry except that the entry is posted as a debit, not a credit. After the posting has been completed, the account appears as follows:

Adams Company										ACCOUNT NO. 21
DATE		ITEMS		POST. REF.	DEBIT	DATE		ITEMS	POST. REF.	CREDIT
1937	Oct. 1			2	2500	1937	Oct. 1	Balance	1	9100

The number of the Adams Company account, 21, is written in the Post. Ref. column of the journal. The journal then appears as follows:

JOURNAL										PAGE 2
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT		
DEBIT	CREDIT					DEBIT	CREDIT			
2000		1957 Oct. 1	Office Furniture	R 1	13		2000			1
	2500	1	Adams Company	C 1	21	2500				2
										3
										4
										5

Completing the posting of individual entries in the General columns.

Each amount in the General Debit column of the journal is posted to the debit side of the account named in the Name of Account column. Each amount in the General Credit column of the journal is posted to the credit side of the account named in the Name of Account column.

Posting the totals of special columns in the journal. Nothing is posted from a special column until the end of the month; then it is necessary to post only the total of the column. The total of each special column is posted to the account named in the heading of the column. For example, the total of the Cash Debit column, \$1,440.60, of the journal on page 58 is posted to the debit side of the cash account in the ledger. The total of the Cash Credit column, \$723.93, is posted to the credit side of the cash account. The total of the Commissions Income Credit column, \$1,377.60, is posted to the credit side of the commissions income account.

Totals of the General columns of the journal are not posted. Each individual amount in both of the General columns has been posted separately. Therefore, the totals of these two columns must not be posted. A check mark in parentheses is placed below the totals of each of the two General columns to indicate that no further posting is required. Note how the check marks appear in the illustration on page 58.

Posting the total of the Cash Debit column of the journal. To post the total of the Cash Debit column of the journal, proceed as follows:

Step 1. Open the ledger to the account named by the heading of the first special column in the journal, Cash. The cash account in the ledger appears as follows:

Cash										ACCOUNT NO. 11
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT			
1957 Oct. 1	Balance	1	371.00							

Step 2. Transfer the total of the Cash Debit column of the journal, \$1,440.60, to the cash account in the ledger. Write the amount of the debit, \$1,440.60, in the Debit Amount column of the cash account.

Cash				ACCOUNT NO. //			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	371.00				
31		2	1440.60				

Step 3
Step 4
Step 2

Step 3. Write the day found on the total line of the journal, 31, in the Date column on the debit side of the cash account.

This is the second entry on the debit side of the cash account. The date of the first entry in the cash account is 1957, Oct. 1. The date of the second entry is also the same year and the same month; therefore, it is not necessary to repeat 1957 and Oct. on the debit side of the cash account.

Step 4. Write the figure 2 in the Post. Ref. column of the cash account to show that this entry was posted from page 2 of the journal.

Step 5. Return to the journal and write 11, the account number of the cash account, immediately under the total of the Cash Debit column. Place parentheses around the account number.

Posting the total of the Cash Credit column of the journal. The total of the Cash Credit column of the journal is posted in the same manner as the total of the Cash Debit column with two exceptions:

1. The posting is made to the credit side of the cash account.
2. The complete date (the year, the month, and the day) is written in the cash account because this is the first entry on the credit side of that account.

Cash account after posting journal totals. After the totals of the Cash Debit and the Cash Credit columns of the journal are posted, the cash account in the ledger appears as follows:

Cash									
ACCOUNT NO. 11									
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	371 00	1957 Oct. 31		2	723 93		
31		2	1440 60						

Posting the total of the Commissions Income Credit column of the journal. The steps in posting the total of the Commissions Income Credit column of the journal are similar to the steps used in posting the total of the Cash Credit column. The final step in posting the total of the Commissions Income Credit column is the writing of the account number, 41, in parentheses immediately below the total of the Commissions Income Credit column in the journal. Writing the number of the commissions income account, 41, below the column total shows that the posting of this column total has been completed.

The commissions income account in the ledger now appears as follows:

Commissions Income									
ACCOUNT NO. 41									
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
				1957 Oct. 31		2	1377 60		

A check mark is placed in the Post. Ref. column for each entry in the Commissions Income Credit column. This check mark shows that no further posting is required for the item on this line. (See illustration on page 58.) Many experienced bookkeepers prefer to insert a check mark in the Post. Ref. column at the time each amount in the Commissions Income column is recorded. Such a procedure indicates in advance of posting that each of these amounts will not be posted individually.

JOURNAL										PAGE 2	
CASH		DATE	NAME OF ACCOUNT	NO.	POST. REF.	GENERAL		COMMISSIONS INCOME CREDIT			
DEBIT	CREDIT					DEBIT	CREDIT				
2000		1937 Oct. 1	Office Furniture	R 1	13		2000		1		
	2500		Adams Company	C 1	21	2500			2		
	3750		Office Furniture	C 2	13	3750			3		
1500			Office Machines	R 2	14		1500		4		
	4200		Star Garage	C 3	23	4200			5		
	7600		Office Machines	C 4	14	7600			6		
	3900		Office Furniture	C 5	13	3900			7		
	10000		Daniels Company	C 6	22	10000			8		
1800			Office Furniture	R 3	13		1800		9		
60000			Commissions Income	R 4	✓			60000	10		
	12000		Rent Expense	C 7	55	12000			11		
	2500		Automobile Expense	C 8	52	2500			12		
24000			Commissions Income	R 5	✓			24000	13		
	17500		Office Machines	C 9	14	17500			14		
	763		Advertising Expense	C 10	51	763			15		
2500			Commissions Income	R 6	✓			2500	16		
37500			Commissions Income	R 7	✓			37500	17		
	450		Miscellaneous Expense	C 11	54	450			18		
1000			Office Furniture	R 8	13		1000		19		
	5000		Star Garage	C 12	23	5000			20		
4200			Commissions Income	R 9	✓			4200	21		
	500		Entertainment Expense	C 13	53	500			22		
	978		Advertising Expense	C 14	51	978			23		
	752		Miscellaneous Expense	C 15	54	752			24		
4560			Commissions Income	R 10	✓			4560	25		
5000			Commissions Income	R 11	✓			5000	26		
144060	72393		Totals			72393	6300	137760	27		
(W)	(W)					(W)	(W)	(W)	28		
									29		
									30		
									31		
									32		
									33		
									34		
									35		
									36		

Journal of Greene Realty Agency after posting

The journal and the ledger after posting. The journal after all posting has been completed is illustrated above. The amounts recorded in the General Debit and the General Credit columns are usually posted at intervals during the month so that there will not be too much work at the end of the month. In some businesses these amounts are posted daily.

The ledger after all posting has been completed is illustrated on pages 59 and 60.

Cash							
				ACCOUNT NO. 11			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	371.00	1957 Oct. 31		2	723.93
31		2	144.060				
Automobile							
				ACCOUNT NO. 12			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	3170.00				
Office Furniture							
				ACCOUNT NO. 13			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	745.60	1957 Oct. 1		2	200.00
2		2	37.50	5		2	180.00
3		2	39.00	18		2	100.00
Office Machines							
				ACCOUNT NO. 14			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	2544.00	1957 Oct. 2		2	150.00
3		2	76.00				
12		2	175.00				
Adams Company							
				ACCOUNT NO. 21			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1		2	250.00	1957 Oct. 1	Balance	1	910.00
Daniels Company							
				ACCOUNT NO. 22			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 4		2	1000.00	1957 Oct. 1	Balance	1	3000.00
Star Garage							
				ACCOUNT NO. 23			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 2		2	420.00	1957 Oct. 1	Balance	1	12500.00
18		2	500.00				

Ledger of Greene Realty Agency after posting all transactions for October

Recording increases in account balances. Assets are found on the left-hand side of the balance sheet; therefore, when an asset is recorded or is increased, the entry is made in a *debit* column of the journal and is posted to the left-hand or debit side of the account.

Liabilities are found on the right-hand side of the balance sheet; therefore, when a liability is recorded or is increased, the entry is made in a *credit* column of the journal and is posted to the right-hand or credit side of the account.

Proprietorship is found on the right-hand side of the balance sheet; therefore, when proprietorship is recorded for the first time or is increased, the entry is made in a *credit* column of the journal and is posted to the right-hand or credit side of the account.

Incomes increase proprietorship and are always recorded in the journal in a *credit* column. Income items are posted to the right-hand or credit side of the account in the ledger.

Expenses decrease proprietorship and are always recorded in the journal in a *debit* column. Expense items are posted to the left-hand or debit side of the account in the ledger.

Recording decreases in account balances. In bookkeeping, subtraction in a ledger account is always indicated by "opposite position." The amount to be *subtracted* from an account balance is always placed on the side of the account that is *opposite* the balance from which it is to be subtracted. For example, if an amount is to be subtracted from an asset account *debit* balance, the amount to be subtracted is placed on the *credit* side of the asset account. Similarly, if an amount is to be subtracted from a liability account *credit* balance, the amount to be subtracted is placed on the *debit* side of the liability account.

ANY ASSET ACCOUNT	
Debit Side	Credit Side
Balance Side	
Increases in an asset are entered on the left-hand or debit side.	

ANY LIABILITY ACCOUNT	
Debit Side	Credit Side
	Balance Side
	Increases in a liability are entered on the right-hand or credit side.

ANY PROPRIETORSHIP ACCOUNT	
Debit Side	Credit Side
	Balance Side
	Increases in proprietorship are entered on the right-hand or credit side.

ANY INCOME ACCOUNT	
Debit Side	Credit Side
	All incomes are entered on the right-hand or credit side.

ANY EXPENSE ACCOUNT	
Debit Side	Credit Side
All expenses are entered on the left-hand or debit side.	

A decrease in an asset account, therefore, is always placed in a *credit* column in the journal and is posted to the right-hand or credit side of the account in the ledger.

ANY ASSET ACCOUNT	
<i>Debit Side</i> <i>Balance Side</i>	<i>Credit Side</i> Decreases in an asset are entered on the right-hand or credit side.

A decrease in a liability account is always placed in a *debit* column in the journal and is posted to the left-hand or debit side of the account in the ledger.

ANY LIABILITY ACCOUNT	
<i>Debit Side</i> Decreases in a liability are entered on the left-hand or debitside.	<i>Credit Side</i> <i>Balance Side</i>

A decrease in proprietorship is always placed in a *debit* column in the journal and is posted to the left-hand or debit side of the account in the ledger.

ANY PROPRIETORSHIP ACCOUNT	
<i>Debit Side</i> Decreases in proprietorship are entered on the left or debit side.	<i>Credit Side</i> <i>Balance Side</i>

CHAPTER QUESTIONS

1. What are the five divisions of the chart of accounts of the Greene Realty Agency?
2. Explain the numbering system used by the Greene Realty Agency in numbering ledger accounts.
3. Why must each amount in the two General columns of the journal be posted separately?
4. What are the five steps in posting an amount from the General Debit column of the journal?
5. How can you tell whether a journal entry has been posted?
6. What are the five steps in posting the total of the Cash Debit column of the journal?
7. How does the posting of the total of the Cash Credit column differ from the posting of the total of the Cash Debit column?
8. How do you show in the journal that the totals of the General columns are not posted?

CASES FOR DISCUSSION

1. Mr. Leslie Babcock posts from both General columns of the journal in the order in which the transactions appear. Mr. John Devine posts all of the amounts in the General Debit column first and then posts all of the amounts in the General Credit column.
 - (a) What are the advantages of the procedure used by Mr. Babcock?
 - (b) What are the advantages of the procedure used by Mr. Devine?

2. Mr. Neels writes the account number of the ledger account to which the journal entry was transferred as the last step in the process of posting. Mr. Kissinger reverses this procedure and begins the posting process by writing the ledger account number in the Post. Ref. column of the journal as the first step in posting. What are the advantages of Mr. Neels's procedure?
3. J. R. Gammon has dozens of accounts in his ledger and numerous pages in his journal. While examining one of his ledger accounts, he becomes interested in getting some additional information about one of the amounts. He wants to trace this ledger entry back to the journal entry from which it was posted. How can he quickly determine the exact page of the journal to which to refer?

DRILLS FOR UNDERSTANDING

You have learned that the proper sequence in bookkeeping is: (1) the immediate record, (2) the journal entry, and (3) posting to the proper ledger account. But a bookkeeper plans his entry before recording it in the journal. The experienced bookkeeper does this mentally. The inexperienced bookkeeper may use a form known as a T account, so called because it resembles the capital letter T. For example, he would record the first transaction on page 58 in the following form:

Sample transaction:

Received cash, \$20.00, from sale of
old office furniture.

Sample T account solution:

CASH	OFFICE FURNITURE
20.00	20.00

Drill 6-A. Instructions: 1. Read Transaction No. 1 given below. Draw two T accounts and write the proper account titles for each, one for the debit part of the transaction and one for the credit part. Then indicate the amount of the debit in one T account and the amount of the credit in the other T account. When this transaction is recorded, your accounts should be similar to those shown in the sample transaction above.

2. Record the additional transactions in T accounts. Use two T accounts for each transaction.

If these were complete accounts, they would have beginning balances; but it is not necessary to show balances in T accounts that are used merely for planning the debit and the credit for each entry.

Transactions:

1. Received cash, \$20.00, from the sale of old office furniture.
2. Paid cash, \$25.00, to Adams Company in part payment of the amount owed.
3. Paid cash, \$37.50, for purchase of new office desk.
4. Received cash, \$15.00, from sale of office machine.
5. Paid cash, \$42.00, to Star Garage in part payment of the amount owed.

Drill 6-B. Instructions: Plan the recording of the following transactions by the use of T accounts as you did in Drill 6-A.

Transactions:

1. Received cash, \$600.00, as commission from sale of a house.
2. Paid cash, \$76.00, for purchase of office machine.
3. Paid cash, \$39.00, for purchase of office furniture.
4. Paid cash, \$100.00, to Daniels Company in part payment of the amount owed.
5. Received cash, \$18.00, from sale of office furniture.

Drill 6-C. Instructions: Plan the recording of the following transactions by the use of T accounts as you did in Drill 6-A.

Transactions:

1. Received cash, \$500.00, as commission from sale of a house.
2. Paid cash, \$120.00, for rent for October.
3. Paid cash, \$5.00, for gas and oil for automobile.
4. Received cash, \$240.00, as commission from sale of a house.
5. Paid cash, \$4.50, for telephone bill. (Miscellaneous Expense)
6. Paid cash, \$20.00, for repairs on automobile.
7. Paid cash, \$7.52, for electric bill. (Miscellaneous Expense)

APPLICATION PROBLEMS

Problem 6-1. Posting the journal of a public accountant

The journal completed in Problem 5-2 of Chapter 5 is required for this problem. If Problem 5-2 has not been returned to you, complete Exercise 6-A in the Appendix.

Instructions: 1. Prepare the Pepper ledger by opening the accounts listed below. Place six accounts on each page of the ledger. Use the account numbers shown in the following list. Be sure to write the proper account number after the title of each account.

ACCOUNT	ACCT. No.	ACCOUNT	ACCT. No.
Cash	11	Robert Pepper, Capital	31
Automobile	12	Fees Income	41
Office Furniture	13	Automobile Expense	51
Professional Library	14	Miscellaneous Expense	52
Metcalf Company	21	Rent Expense	53
O'Brien Company	22		

Instructions: 2. The asset accounts have *debit* balances as follows:

Cash	\$1,400.00	Office Furniture	\$560.00
Automobile	\$2,750.00	Professional Library	\$240.00

Copy these balances in the ledger that you have just prepared. Use the date October 1 of the current year.

Whenever a balance is copied in a ledger account, place a check mark in the posting reference column.

Instructions: 3. The liability and proprietorship accounts have *credit* balances as follows:

Metcalf Company	\$ 30.00	Robert Pepper, Capital	\$4,760.00
O'Brien Company	\$160.00		

Copy these balances in the ledger. Use the date October 1 of the current year.

Instructions: 4. Turn to the journal you completed for Problem 5-2. Post each amount that is recorded in the General Debit and the General Credit columns of your journal.

5. Place a check mark in the Post Ref. column for each entry crediting Fees Income. This check mark shows that this entry is not posted individually.

6. Post the totals of the three special columns of your journal to the proper accounts in your ledger. Place a check mark under the columns General Debit and General Credit to indicate that these totals are not posted.

Problem 6-2. Journalizing and posting the transactions of a lawyer

You will need to prepare the ledger of James N. Henderson, a lawyer, before you can do the work in this exercise.

Instructions: 1. Open the twelve accounts in the ledger that will be needed for this exercise. Place six accounts on each page of your ledger. A list of the account titles with account numbers is given below.

ACCOUNT TITLE	ACCT. No.	ACCOUNT TITLE	ACCT. No.
Cash	11	Fees Income	41
Automobile	12	Automobile Expense	51
Office Furniture	13	Miscellaneous Expense	52
Professional Library	14	Rent Expense	53
Cumming's Garage	21	Stationery Expense	54
Hoffman Company	22		
James N. Henderson, Capital	31		

Instructions: 2. Copy the balances given below in the proper accounts of the ledger prepared in Instruction 1. Date each account balance October 1 of the current year.

Assets (Debit Balances)

Cash, \$1,313.00
Automobile, \$2,800.00
Office Furniture, \$450.00
Professional Library, \$645.00

Liabilities and Proprietorship (Credit Balances)

Cumming's Garage, \$139.00
Hoffman Company, \$184.50
James N. Henderson, Capital, \$4,884.50

(Note that the only accounts that have balances are the accounts for assets, liabilities, and proprietorship. The reason will be explained in a later chapter.)

Instructions: 3. On page 2 of a journal similar to the model journal on page 58, journalize the transactions for October given below.

Transactions:

- Oct. 1. Paid cash, \$125.00, for rent for October. (Check No. 1)
2. Received cash, \$54.00, from J. E. Clem for professional fees. (Receipt No. 1)
3. Paid cash, \$45.00, for office furniture. (Check No. 2)
5. Paid cash, \$14.00, for stationery. (Check No. 3)
7. Paid cash, \$116.00, to Cumming's Garage on account. (Check No. 4)
9. Received cash, \$32.50, from R. L. Brimer for professional fees. (Receipt No. 2)
11. Received cash, \$94.00, from sale of old office furniture. (Receipt No. 3)
15. Paid cash, \$5.00, for gas and oil. (Check No. 5)
17. Paid cash, \$5.00, for postage stamps. This is miscellaneous expense. (Check No. 6)
18. Paid cash, \$21.50, for new tire for automobile. (Check No. 7)
21. Paid cash, \$4.50, for envelopes. (Check No. 8)
24. Received cash, \$44.00, from J. P. Mullane for professional fees. (Receipt No. 4)
25. Paid cash, \$23.00, to Cumming's Garage on account. (Check No. 9)
26. Received cash, \$111.10, from Jack Burant for professional fees. (Receipt No. 5)
29. Received cash, \$81.00, from H. R. Sinner for professional fees. (Receipt No. 6)
30. Paid cash, \$14.00, for telephone service for month. This is miscellaneous expense. (Check No. 10)
30. Paid cash, \$24.00, for electricity for month. This is miscellaneous expense. (Check No. 11)
31. Paid cash, \$133.00, to Hoffman Company on account. (Check No. 12)

Instructions: 4. Post the individual amounts in the General Debit and the General Credit columns to the accounts in the ledger.

5. Place a check mark in the Post Ref. column for each entry crediting Fees Income to show that this entry is not posted individually.

6. Foot each amount column with small pencil figures. Prove the equality of debits and credits in your journal. The sum of the totals of the two debit columns should equal the sum of the totals of the three credit columns.

7. Draw single lines across all amount columns. Use as your guide the model journal on page 58.

8. Write the column totals on the total line. Write the word *Totals* in the Name of Account column.

9. Rule your journal with double lines.

10. Post the totals of the three special columns. Place a check mark under the General Debit and General Credit columns to indicate that these totals are not posted.

Proving the accuracy of posting

CHAPTER 7

Accuracy in bookkeeping. Bookkeeping records are valuable only to the extent that they are accurate. The bookkeeper should be careful to avoid errors. He should also use methods that will help him to detect promptly any errors that do occur. Two methods of checking the accuracy of bookkeeping records will be discussed in this chapter: (1) proving cash and (2) taking the trial balance.

Proving cash. In the Greene Realty Agency, every transaction is a cash transaction. If the amount of cash on hand is the same as the balance of the cash account in the ledger, it is probable that the cash part of each transaction has been recorded and posted correctly. Determining that the amount of cash on hand agrees with the balance of the cash account in the ledger is known as *proving cash*. The method of proving cash includes:

1. Finding the amount of cash on hand.
2. Finding the balance of the cash account.
3. Comparing the amount of cash on hand with the balance of the cash account.

Finding the amount of cash on hand. When all cash that has been received has been deposited in the bank, the total cash on hand is the balance in the checkbook. If some cash that has been received has not yet been deposited, the cash on hand is the sum of the undeposited cash plus the balance in the checkbook.

Mr. Greene deposits all cash received; his check-stub balance, \$1,087.67, was therefore the amount of cash on hand on October 31.

Finding the balance of the cash account. The cash account of the Greene Realty Agency, after the balance has been found, appears as follows:

Cash									
ACCOUNT NO. 11									
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	371.00	1957 Oct. 31		2	723.93		
31	1,087.67	2	1,449.60						

In finding the balance of the cash account proceed as follows:

Step 1. Add the amounts in the Debit column; write the total in small figures immediately under the last amount in that column. Use a sharp, firm pencil.

A soft lead pencil may blur, and a dull pencil point will not make small figures. The footing is written very small so the next line can be used for another entry.

Step 2. If there were several entries in the Credit column, you should add them and record the footing the same as you did in the Debit column. Since there is only one entry on the credit side of this account, it is not necessary to make a pencil footing.

Step 3. Find the difference between the totals of the two sides of the cash account:

Total of debit side of cash account.....	\$1,811.60
Total of credit side of cash account.....	723.93
Difference between two sides.....	\$1,087.67

The difference between the two sides of the cash account, \$1,087.67, is known as the *balance* of the account.

Step 4. Write the amount of the balance in the Items column on the side with the larger total even with the column footing.

Comparing the amount of cash on hand with the balance of the cash account. On October 31, the Greene Realty Agency had cash on hand amounting to \$1,087.67. The balance of the cash account was also \$1,087.67. Since the cash on hand is found to agree with the balance of the cash account, cash is said to be *proved*.

A disagreement between the cash account balance and the amount of cash on hand would have indicated that one or more errors had been made either in handling the cash or in the bookkeeping records. When the cash account does not prove, the error should be found and corrected.

The trial balance. The debits in the journal were found in Chapter 5 to be equal to the credits. If no errors were made in posting, the total of all debit amounts in the ledger should equal the total of all credit amounts in the ledger. It follows, then, that a method of testing the accuracy of posting is to prove the equality of the debits and the credits in the ledger.

The proof of the equality of the debits and the credits in the ledger is called a *trial balance*. It consists of a list of the account titles with their balances arranged in a debit column and a credit column and each column totaled. (See the illustration of a trial balance on page 72.)

If the two totals of the trial balance are equal, the posting of the journal is assumed to be correct.

Footings the accounts. Since account balances are recorded on the trial balance, all accounts should be footed before the preparation of the trial balance is started. The cash account was footed in connection with the proving of cash. The method of footing other accounts depends on the number of entries in each account.

When an account has only one entry, it is not necessary to write a footing or a balance. The one amount in the account is the footing and the balance. Such an account is Account No. 12, Automobile, illustrated in the ledger below.

When an account has several entries on each side, both the Debit column and the Credit column are footed. The footing of the smaller side is subtracted from that of the larger side. The difference between the two footings is written in the Items column on the side of the account that has the larger total. This amount is the balance of the account. Account No. 13, Office Furniture, in the ledger on page 70 shows this method of footing.

When an account has only one debit entry and one credit entry, footings are not needed in the Debit and the Credit columns because the amounts are the footings. The balance is written in the Items column on the side that has the larger amount. Account No. 21, Adams Company, illustrates this method.

When an account has two or more entries on one side only, that side is footed, but the balance is not written in the Items column because the footing is the balance. Account No. 51, Advertising Expense, illustrates this method of footing.

A complete ledger containing the necessary footings for all accounts is illustrated below and on pages 70 and 71.

Cash							
				ACCOUNT NO. 11			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	371 00	1957 Oct. 31		2	723 93
31		1087.67	1,449.60				
Automobile							
				ACCOUNT NO. 12			
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	317 00				

A ledger with the accounts footed

Office Furniture								ACCOUNT NO. 13	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	74560	1957 Oct. 1		2	2000		
2		2	3750	5		2	1800		
3		2	3900	18		2	1000		
	194.10		82290						
Office Machines								ACCOUNT NO. 14	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1	Balance	1	25440	1957 Oct. 2		2	1500		
3		2	7600						
12		2	17500						
	490.40								
Adams Company								ACCOUNT NO. 21	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 1		2	2500	1957 Oct. 1	Balance	1	9100		
					66.00				
Daniels Company								ACCOUNT NO. 22	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 4		2	10000	1957 Oct. 1	Balance	1	30000		
					600.00				
Star Garage								ACCOUNT NO. 23	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
1957 Oct. 2		2	4200	1957 Oct. 1	Balance	1	125000		
18		2	5000		1125.00				
J. M. Greene, Capital								ACCOUNT NO. 31	
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT		
				1957 Oct. 1	Balance	1	290000		

A ledger with the accounts footed (continued)

Commissions Income								ACCOUNT NO. 41
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT	
				1957 Oct. 31		2	137760	

Advertising Expense								ACCOUNT NO. 51
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT	
1957 Oct. 13		2	763					
22		2	928					
			1691					

Automobile Expense								ACCOUNT NO. 52
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT	
1957 Oct. 8		2	2500					

Entertainment Expense								ACCOUNT NO. 53
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT	
1957 Oct. 22		2	500					

Miscellaneous Expense								ACCOUNT NO. 54
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT	
1957 Oct. 16		2	450					
25		2	752					
			1202					

Rent Expense								ACCOUNT NO. 55
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT	
1957 Oct. 5		2	12000					

A ledger with the accounts footed (concluded)

Step 1	<p style="text-align: center;"><i>Greene Realty Agency</i> <i>Trial Balance</i> <i>October 31, 1957</i></p>									
Step 2	Cash	11	108767							
	Automobile	12	317000							
	Office Furniture	13	77410							
	Office Machines	14	49040							
	Adams Company	21						6600		
	Daniels Company	22						20000		
	Star Garage	23						115800		
	J. M. Greene, Capital	31						290000		
	Commissions Income	41						137760		
	Advertising Expense	51	1741							
	Automobile Expense	52	2500							
	Entertainment Expense	53	500							
	Miscellaneous Expense	54	1202							
	Rent Expense	55	12000							
			570160					570160		

Trial balance

How to prepare a trial balance. In making a trial balance proceed as follows:

Step 1. Write the trial balance heading at the top of a sheet of paper that has two amount columns.

The heading consists of three lines: (1) the name of the business, (2) the words "Trial Balance," and (3) the date. The date is the month, the day, and the year for which the trial balance is prepared.

Step 2. Enter on the trial balance each account in the ledger that has a balance. In each case record the account title, the account number, and the balance. If the balance is a debit, enter it in the left-hand or debit amount column; if the amount is a credit, enter it in the right-hand or credit amount column.

Step 3. Show that each amount column of the trial balance is to be added by ruling a single line across both amount columns under the last amount listed.

Step 4. Add each amount column. Write the totals on the first line below the single ruling.

Step 5. Indicate that the trial balance is correct by ruling a double line under the totals across the amount columns. Note how the totals have been entered and the trial balance has been ruled in the illustration.

In bookkeeping a double ruling indicates that the work has been completed. The double line should not be drawn until the trial balance is in balance. The ruling may be made in red or black. All lines should be drawn with the aid of a ruler.

Proof provided by the trial balance. If the two totals of the trial balance are equal, the trial balance is said to be *in balance*. The person preparing the trial balance can assume that there is equality of debits and credits in the ledger. ✓

But a trial balance that is in balance does not prove the complete accuracy of the bookkeeping records. For example, if the \$25.00 debited to the Adams Company account on October 1 had been posted by mistake to the debit side of the Star Garage account, the trial balance would still be in balance. An error of this kind should be discovered when monthly statements of account are received from these two creditors.

If the recording of a transaction is omitted entirely, the ledger will still be in balance and the error will not be indicated by the trial balance. If, however, the omitted transaction affects cash, the error will be shown when the cash balance is proved. The balance of the cash account will not agree with the cash actually on hand.

Finding errors when a trial balance is out of balance. Proceed as follows in checking a trial balance out of balance:

Step 1. Add again each column of the trial balance. (One or both of the columns may have been added incorrectly.)

Step 2. Find the amount of the difference between the debit total and the credit total of the trial balance. Look in the ledger for this amount. The amount of the difference may be the balance of an account that has been omitted from the trial balance. Also look in the journal for this amount. Perhaps this amount was not posted when it should have been.

Step 3. Divide the amount of the difference between the debit total and the credit total of the trial balance by 2. Look in the ledger to see if this amount has been recorded on the wrong side of a ledger account or in the wrong column of the trial balance. This kind of error makes the trial balance off by twice the amount of the error.

Step 4. Divide the difference between the debit total and the credit total of the trial balance by 9. If the difference is divisible by 9, figures in an amount may have been transposed. For example, an amount of \$36.00 may have been transposed by writing \$63.00, in which case the trial balance would be out of balance \$27.00.

Step 5. Compare the balances on the trial balance with the balances in the ledger accounts. An error may have been made in copying the account balance on the trial balance.

Step 6. Verify the pencil footings and the account balances in the ledger. An error may have been made in footing an account or in determining the balance.

Step 7. Verify the posting of each item in the journal. As each posting is verified, place a small check mark (✓) on the double vertical line at the left of the corresponding amount in both the journal and the ledger. An item may have been (a) posted twice, (b) not posted at all, (c) entered on the wrong side of an account, or (d) copied incorrectly.

Step 8. Examine first the journal and then the ledger to find items not checked or items that have been checked twice.

The error or errors should now be found because all of the work has been retraced.

Correcting errors as they are found in the ledger. If an item has been posted to the wrong side of an account, a line should be drawn through the incorrect posting and the item should then be posted correctly, as follows:

Office Machines							
ACCOUNT NO. 14							
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1	Balance	1	25440	1957 Oct. 2		2	1500
3		2	7600	3		2	7600

Correction of the posting to the wrong side of an account

If an amount has been posted incorrectly, a line should be drawn through the incorrect amount in the account and the correct amount should then be written above it, as follows:

Adams Company							
ACCOUNT NO. 21							
DATE	ITEMS	POST. REF.	DEBIT	DATE	ITEMS	POST. REF.	CREDIT
1957 Oct. 1		2	2500 250	1957 Oct. 1	Balance	1	9100

Correction of the posting of a wrong amount

If an item has been posted to the wrong account, a line should be drawn through the incorrect posting and the item should be posted correctly. If the posting of an item has been omitted, the amount should be posted at once. If an item has been posted twice, a line should be drawn through the second posting in the account.

An error in a pencil footing in the ledger should be erased and the correct pencil footing should be substituted for it.

Correcting errors in the trial balance. If an account balance has been omitted from the trial balance, it should be inserted in its proper position. If an account balance has been placed in the wrong column of the trial balance, the amount should be erased or canceled with a line and the same amount should be written in the correct column. A similar correction should be made for a balance copied incorrectly. The trial balance totals should also be corrected.

CHAPTER QUESTIONS

1. What are the steps that should be followed in proving cash?
2. What are the steps that should be followed in finding the balance of the cash account?
3. Where is the pencil footing of each side of an account written?
4. Why should the pencil footings of an account be written very small?
5. Where is the difference between the pencil footings of the two sides of an account written?
6. What is the purpose of a trial balance?
7. What are the three parts of the heading of a trial balance?
8. What are the steps that should be followed in preparing a trial balance?
9. What are the steps that should be followed in finding errors when a trial balance is out of balance?
10. What kind of errors in journalizing and posting are not detected by a trial balance?
11. How is the posting of an amount to the wrong account in the ledger corrected?
12. How is an incorrect posting of an amount to the ledger corrected?

INCREASING YOUR BUSINESS VOCABULARY

What is the meaning of each of the following:

- | | |
|---------------------|----------------------------------|
| (a) proving cash | (d) trial balance in balance |
| (b) account balance | (e) trial balance out of balance |
| (c) trial balance | |

CASES FOR DISCUSSION

1. After all posting has been completed, the balance of R. J. Lane's cash account does not agree with the amount of cash on hand. What steps should he take to find the error?
2. Which of the following errors would not be indicated by the trial balance:
 - (a) In posting the October journal of the Greene Realty Agency, the debit of \$42.00 to the Star Garage account was posted to the debit side of the Daniels Company account.
 - (b) On October 16 the debit of \$4.50 to the miscellaneous expense account was posted to the credit side of that account.
 - (c) The office furniture account balance of \$774.10 was not listed on the trial balance.
 - (d) The debit balance of \$17.41 in the advertising expense account was written in the credit column of the trial balance.
3. Explain the method of correcting each of the errors listed in Case 2.

DRILL FOR UNDERSTANDING

Drill 7-A. Instructions: 1. On a sheet of paper, copy in one column the ledger account titles that are given below.

1. Advertising Expense
2. Atlas Company (creditor)
3. Automobile
4. Automobile Expense
5. Cash
6. Commissions Income
7. Drake Company (creditor)
8. Electricity Expense
9. Kenneth Hackett, Capital
10. Office Furniture
11. Office Machines
12. Rent Expense
13. Rolfe Garage (creditor)
14. Stationery Expense

Instructions: 2. Rule three columns at the right of your list of accounts and write in the headings shown in the form below.

Account Titles	Classification	Trial Balance	
		Debit	Credit
<i>1. Advertising Expense</i>	<i>E</i>	✓	

Instructions: 3. Classify each item on your list as an asset, a liability, proprietorship, an income, or an expense by writing in the Classification column a capital: A for Asset L for Liability I for Income
P for Proprietorship E for Expense

Instructions: 4. Indicate whether the balance of each account will appear in the Debit column or the Credit column of the trial balance by making a check mark in the appropriate column.

The first item is given as an example.

5. Now cover your answers and see how rapidly you can classify these accounts orally without looking at your answers. Repeat this drill orally several times for increased speed and accuracy.

APPLICATION PROBLEMS

Problem 7-1. Taking a trial balance

If you are not using the workbook correlating with this textbook, complete Exercise 7-A in the Appendix instead of this problem.

The ledger accounts of G. P. Grant on October 31 of the current year are given in the workbook.

Instructions: 1. Foot the ledger accounts. Write the footings in very small figures with a sharp pencil and place each footing close to the last item. If an account has entries on both sides, write the balance in small pencil figures in the Items column of the larger side.

2. Prove cash. The cash on hand on October 31 of the current year, by actual count, is \$740.32. This amount should agree with the balance of the cash account in the ledger.

3. Prepare a trial balance dated October 31 of the current year. If the two totals of the trial balance are equal, rule single and double lines as shown on the model trial balance on page 72.

Self-checking: Compare your ledger with the illustrations on pages 69 to 71 and ask yourself the following questions:

(a) Were the pencil footings written in the ledger in small figures with a sharp, firm pencil?

(b) Was each amount column of an account footed when, and only when, it contained two or more entries?

(c) For each account having one or more entries on both the debit and the credit sides, was the balance of the account written in small pencil figures in the Items column of the larger side?

Problem 7-2. Finding and correcting errors indicated by a trial balance

If you are not using the workbook correlating with this textbook, complete Exercise 7-B in the Appendix instead of this problem.

The journal and the ledger accounts of William Johnson after the posting of the entries for November of the current year are given in the workbook.

Instructions: 1. Foot the ledger accounts. Write the footings in very small figures with a sharp pencil and place each footing close to the last item. If an account has entries on both sides, write the balance in small pencil figures in the Items column of the larger side.

2. Prove cash. The cash on hand on November 30 of the current year, by actual count, is \$2,002.96.

3. Prepare a trial balance dated November 30 of the current year. If the two totals of the trial balance are not equal, proceed as you were directed in Steps 1-8, pages 73 and 74, to find the error or errors. Correct any errors in the journal or the ledger, using the methods explained and illustrated on pages 45, 74, and 75. Then complete the trial balance.

Journal, ledger, and trial balance

PROJECT 1

Purpose of Project 1. This project makes use of all the steps in the book-keeping process that have been developed in the preceding seven chapters. It requires:

- (a) Opening the necessary accounts in the ledger.
- (b) Journalizing a series of selected transactions.
- (c) Posting from the journal.
- (d) Preparing a trial balance.

Henry Realty Agency

George Henry is the owner of the Henry Realty Agency. His ledger contains the following accounts with the balances shown:

List of accounts and balances

(1) ASSETS		(4) INCOME	
ACCT. No.		ACCT. No.	
11.	Cash, \$375.60	41.	Commissions Income
12.	Automobile, \$3,600.00		
13.	Office Furniture, \$901.00		
14.	Office Machines, \$574.40		
(2) LIABILITIES		(5) EXPENSES	
21.	Duffy's Garage, \$1,800.00	51.	Advertising Expense
22.	Gates Brothers, \$651.00	52.	Automobile Expense
(3) PROPRIETORSHIP		53.	Entertainment Expense
31.	George Henry, Capital, \$3,000.00	54.	Miscellaneous Expense
		55.	Rent Expense

Items are to be charged to the expense accounts as follows:

Advertising Expense is debited for all advertising for the business.

Automobile Expense is debited for the cost of operating the automobile for business purposes.

Entertainment Expense is debited for the cost of entertaining prospective customers.

Miscellaneous Expense is debited for expenses such as postage, stationery, electricity, telephone service, and any expense item not covered by other expense accounts.

Rent Expense is debited for rent.

Instructions: 1. Open the accounts shown in the list on page 78 and copy the balances. Date these balances November 1 of the current year. (If you are not using the workbook correlating with this textbook, allow four lines for each account.) Number the accounts with the numbers shown in the list of accounts.

Recording transactions in the journal

Instructions: 2. Record the following transactions on page 2 of a columnar journal similar to the journal illustrated on page 58.

- Nov. 1. Received \$700.00 as commission on the sale of a house and lot. (Receipt No. 1)
1. Paid \$150.00 for rent for November. (Check No. 1)
 2. Paid \$10.00 for dinner for prospective customers. (Check No. 2)
 4. Paid \$10.00 for postage stamps. (Check No. 3)
 5. Paid \$250.00 for a new typewriter. (Check No. 4)
 6. Paid \$32.40 for advertising handbills. (Check No. 5)
 8. Received \$120.00 as commission for the rental of a house. (Receipt No. 2)
 9. Received \$12.00 as commission for renting a garage. (Receipt No. 3)
 11. Paid \$10.80 for gas and oil for the automobile. (Check No. 6)
 11. Received \$200.00 as commission on the sale of a house. (Receipt No. 4)
 12. Paid \$69.18 for advertisements in last week's paper. (Check No. 7)
 12. Paid \$9.60 for gas and oil for the automobile. (Check No. 8)
 15. Received \$800.00 as commission on the sale of a house. (Receipt No. 5)
 16. Paid \$30.00 for additional office furniture. (Check No. 9)
 20. Received \$50.00 as commission on the rental of second-floor apartment. (Receipt No. 6)
 20. Paid \$43.50 for a new chair for the office. (Check No. 10)
 22. Paid \$26.50 for advertisements. (Check No. 11)
 22. Paid \$13.00 for dinner for prospective customers. (Check No. 12)
 22. Received \$33.90 from sale of old office furniture. (Receipt No. 7)
 23. Received \$84.00 as commission for obtaining a tenant for a house. (Receipt No. 8)
 25. Received \$70.00 as commission for the rental of a house. (Receipt No. 9)
 26. Paid \$60.00 to Gates Brothers on account. (Check No. 13)
 29. Received \$170.00 as commission for the rental of a store building. (Receipt No. 10)
 30. Paid \$10.00 for gas and oil for the automobile. (Check No. 14)
 30. Paid \$24.60 for the electric light bill for the month of November. (Check No. 15)
 30. Paid \$14.00 for telephone service for the month. (Check No. 16)
 30. Paid \$500.00 to Duffy's Garage on account. (Check No. 17)

Posting the journal entries to the ledger accounts

Instructions: 3. Foot all columns of the journal and prove the equality of debits and credits. Total and rule the journal. (See model on page 58.)

4. Complete the posting of the amounts in the General Debit and the General Credit columns of the journal. Make a check mark (✓) under the totals of the General Debit and the General Credit columns to show that these totals are not to be posted. (See model on page 58.)

5. Post the total of each of the three special columns of the journal: Cash Debit, Cash Credit, and Commissions Income Credit. Write the proper account number under each total after the posting is completed. (See model on page 58.)

Footings and proving the cash account

Instructions: 6. Foot the cash account and enter the balance. (See model on page 67.)

7. Prove cash. The cash on hand determined by actual count is \$1,351.92.

Preparing a trial balance

Instructions: 8. Foot the accounts that have more than one entry on either side. If an account has entries on both sides, write the balance in small pencil figures in the Items column. (See model on pages 69 to 71.)

9. Prepare a trial balance. (See model on page 72.)

Extra form

BONUS PROBLEM 3-B, concluded
[3]

[illegible]

PAGE

[illegible]

[1, 2, 5, 11]

LEDGER

ACCOUNT				ACCOUNT NO.			
DATE	ITEM	POST. REF.	DEBIT	DATE	ITEM	POST. REF.	CREDIT

ACCOUNT				ACCOUNT NO.			
DATE	ITEM	POST. REF.	DEBIT	DATE	ITEM	POST. REF.	CREDIT

ACCOUNT				ACCOUNT NO.			
DATE	ITEM	POST. REF.	DEBIT	DATE	ITEM	POST. REF.	CREDIT

ACCOUNT				ACCOUNT NO.			
DATE	ITEM	POST. REF.	DEBIT	DATE	ITEM	POST. REF.	CREDIT

